STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, AUGUST 16, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
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Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service
McLellan, Ray, Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, August 16, 1988

The committee met at 10:01 a.m. in committee room 2.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Good morning, everyone. I trust everyone has had a good holiday. I had a good holiday.

We are ready to start our session for the month of August. We will be writing our report on the trade agreement. The subcommittee met during the adjournment and discussed a couple of matters concerning the report and other matters. I hope I am indicating the gist of the views of the subcommittee when I indicate there was an expectation that at this point in our proceedings there would be a motion that we go on in camera. Is there any discussion on that?

Mr. Haggerty moves that the committee meet in camera.

Motion agreed to.

Mr. Chairman: Perhaps we could keep Hansard on for a moment. I should have mentioned this. It is my understanding that the sessions would permit the attendance of one researcher from each of the three political parties. I take it that was encompassed in your motion, Mr. Haggerty. Are there any problems with that?

Mr. Ferraro: On a different subject.

Mr. Chairman: Can we dismiss Hansard then?

Mr. Ferraro: No.

Mr. Chairman: With Hansard, on the record.

Mr. Ferraro: The committee will recall we had received in the later stages of public discourse a delegation of young people; I forget what their name was.

Ms. Anderson: Alliance for the Future of Young Canadians.

Mr. Ferraro: In the report they presented to us, certain statements were made, attributed to the Treasurer (Mr. R. F. Nixon), which I questioned. Subsequent to that, and I am sorry for catching you a little off guard, I asked Ms. Anderson to follow up on that. I wonder if we could get a report specific to those allegations or statements made by the presenters, because I think they had some significant impact.

Mr. Chairman: I have not received any communication from her.

Mr. Ferraro: No, but Ms. Anderson was good enough to report to me, upon my request. I would like the committee to be apprised of it.

Ms. Anderson: Can I bring that back tomorrow morning? I do not have all the details with me and I think it would be perhaps better to do it then.

Mr. Ferraro: Fine. I apologize, I caught you off guard.

Mr. Chairman: Do you want that on the record tomorrow?

Mr. Ferraro: Yes.

Mr. Chairman: So we will be asking Hansard to come back tomorrow for that purpose?

Ms. Anderson: I can tell you what I can remember.

Mr. Ferraro: Even a general statement would be fine.

Ms. Anderson: I spoke to Mr. Hansen from the alliance and asked him where he got the information. He went back to his source, which was the Globe and Mail. It was a discussion following the introduction in the House of the Treasurer's Economic Outlook and Fiscal Review of Ontario. The numbers he had given us were ones from which he inferred that the overall growth in the province was really growth as a result of the free trade agreement. It is not specified in the Treasurer's report.

I also talked to Treasury officials, and they said there was no way that a statement such as the one Mr. Hanson had made would have come out of Treasury. I can get the wording for you.

Mr. Ferraro: The point, Mr. Chairman, of course, was that there was this statement attributed to the Treasurer that was inaccurate. I just wanted Hansard to acknowledge that.

Mr. Chairman: Yes, the quote that was purported to be expanded upon was from the fiscal and financial review. Is that acceptable? All right. Can we dismiss Hansard?

The committee continued in camera at 10:05 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TAX REFORM

THURSDAY, NOVEMBER 3, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Cleary, John C. (Cornwall L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pelissero, Harry E. (Lincoln L)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Bossy, Maurice L. (Chatham-Kent L) for Mr. Ferraro
Morin, Gilles E. (Carleton East L) for Mr. Cleary

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:
Leonard, Larry, Assistant Deputy Minister, Tax Reform
LeBlanc, Aubrey, Executive Member, Tax Reform

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 3, 1988

The committee met at 10:11 a.m. in committee room 1.

TAX REFORM

Mr. Chairman: I see a quorum. We have the Ministry of Treasury and Economics here. Mr. Leonard, you just introduced me to the fellow with you, and his name has escaped my mind; I am sorry.

Mr. Leonard: I would like to introduce my colleague, Aubrey LeBlanc, who is part of the tax reform task force.

Mr. Chairman: I wonder if you could outline, as much as you can, the negotiations that are going on between our government and the government of Canada with regard to tax reform, particularly phase 2, and where you see them going in the future.

Mr. Leonard: Certainly. If I might give a little bit of background, this task force, of which I am the chairman, is a joint Ministry of Treasury and Economics and Ministry of Revenue task force. It was set up just about a year ago to deal exclusively with the tax reform issue, not so much with stage 1 of the income tax reform, but primarily around the stage 2 question. It is a sunsetted operation. When the sunset is may depend on the results of the federal election. It is at least nominally posted to sunset March 31, 1989. It is quite a small group. There are six of us altogether.

We have been meeting with something called the National Sales Tax Working Group, which is comprised of all 13 jurisdictions in the country. We have been meeting for about a year, or a little bit over a year now, to deal with the question of technical polishing of options for the consideration of various ministers of finance in the context of a national sales tax.

I think this might help to clarify matters, at least I hope it will. I am sure all members of the committee have seen various descriptions of a multistage sales tax, MSST, a goods and services tax, GST, a business transfer tax, BTT, and a national sales tax, NST. These are all, basically, code words for the same thing in the technical sense, but NST or national sales tax is, if you will, the code for a joint federal-provincial sales tax operation or reform.

I will not belabour the point around how many reasons there are that Ottawa needs to do something about its existing manufacturers sales tax. I think there is certainly enough literature around. It is a badly flawed tax. As a group at the staff level, we almost have an internal joke about how the federal manufacturers sales tax was introduced in 1924 and sales tax reform began in 1925 and has got absolutely nowhere ever since. There have been numerous commissions, committees and professional groups going at it. It is just very difficult to sort it down.

Interestingly enough, mind you, the Japanese think rather highly of the

tax, I suspect partly because it is a virtually invisible tax. They are not accustomed to overt taxes in that country.

To go back to the National Sales Tax Working Group, the purpose of the group is to investigate the feasibility of a national, joint federal-provincial sales tax. This would replace existing provincial retail sales taxes and the existing federal manufacturers sales tax. The basic structure would have a common base, a federal rate and variable provincial rates. If the committee agrees, I can spend a few minutes later on exactly how that would work.

As a group, we have been meeting to work out technical problems surrounding a number of things that clearly were not thought of, or if they were, they certainly were not articulated in the white paper of June 1987. I can give some examples of the kinds of things this group has been working with: the question of the application of such a tax to farmers or fishermen, sales of government crown agencies and various other emanations, treatment of small business, transportation, residential accommodation, constitutional questions, lotteries, gaming of all sorts, crown resources, subsidies, grants and donations, tourism, beverage alcohol, culture, and tax treatment of aboriginal peoples. These are some of the items that have been on the agenda for the last 12 months.

As a group of technicians, if you like, we have managed to solve most of these, at least to the extent that there are options that can be put before the various ministers. I should stress that the optional choices to solve these questions have not been put before ministers. The group has been operating primarily as a technical forum.

The process itself, I would have to say, has been positive and constructive, in many ways the exact opposite of a similar exercise in which I was a minor party in the very early 1970s. At that time, the discussions and negotiations between the two levels of government were combative in the extreme. It certainly did not produce anything positive, or at least not very much that was positive, in my opinion, in terms of tax reform. This was income tax reform, starting in 1969.

This set of discussions is in marked contrast to that, very positive and very constructive. All players, if you will, remain around the table. Incidentally, when I mentioned 13 jurisdictions, those are 10 provinces, the federal government and both territories, so truly the discussions, at least at the technicians level, do in fact cover the entire country.

Not being blind, there certainly has been a lot in the press latterly around the question of rates and bases. The issue of a rate has to remain, to some extent, unsettled since the Minister of Finance for Canada, if there is to be a strictly federal-government-only sales tax reform, has not decided on what the tax base is going to be. It is pretty hard to strike a rate if one has not picked out the base. We are all aware in broad terms of what the base is likely to be. In many ways, the white paper of June 1987 basically said that if we do not exclude it, it is in the tax base.

As I mentioned before, these discussions have been going on for about a year. Some evidence of the results of those discussions appeared in a statement by the Minister of Finance on December 10, 1987, I believe, and it was reiterated on December 16 when he tabled his notice of ways and means with respect to stage 1, that basic groceries would not be included in the tax base. Initially, basic groceries were included in the tax base and the various

treasurers and ministers of finance prevailed upon the Minister of Finance for Canada to cause those to be excluded. In the same announcement, there was an exclusion of prescription drugs and prosthetic appliances.

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Also, at the same time, there was an announcement concerning the possible tax treatment under a national sales tax of the sector of municipalities, universities, school boards and hospitals, which are currently taxable to varying degrees and in varying guises for both federal and provincial purposes. Mr. Wilson, the Minister of Finance, stipulated that this sector would bear a no larger burden under any reformed national sales tax, again the joint federal-provincial tax, than it otherwise would have under existing regimes. I think, as an aside, the policy is very clear. How to implement it is less than clear at this point in time, although presumably somebody will figure out how to do it.

It is reasonable in my view, and I must stress I am speaking here as a civil servant, to consider that there will be some quite significant change in sales taxes in Canada. That may not extend to a national sales tax that would involve all the provinces. As I mentioned before, the various options and how these things would work have not been put in front of ministers, so ministers have not therefore been asked to pick and choose, to decide to participate in the national sales tax or to decide not to. I think it fair to say that all ministers or their respective ministries are watching the matter. They are interested. We are interested, but we remain uncommitted until we see what the final product looks like, and that, for obvious reasons, basically the federal election, is not likely to take place for some time.

By way of setting the backdrop as to why it would appear quite likely that there will be some kind of massive change, there are, within the tax trade anyway, something called stage 1 interim sales tax measures. These were introduced in the federal budget of February 1987. They were scheduled to go into place on November 1 of this year. They have been postponed until April 1, 1989.

The basic thrust of these changes to the existing tax was to try to neutralize the effect of the tax as it bears on imports versus domestically produced products, and had to do with trying to include the marketing and distribution costs on an equal basis for manufactured goods and on an equal basis for imports versus domestic products.

It is also the case that domestic producers were organizing, or are organized, around certain ways of minimizing the base value for the application of that tax. There has been nothing illegal about it. It is just sound tax planning. It is really driven by market forces and market share. It was, as proposed, a very complicated process of grossing up prices and rediscounting prices. If the term "arbitrary and capricious" could ever be used, it certainly would apply to that solution because the results would definitely come out that way.

No one was happy with it. It tended to prove largely unworkable, and on review by the House of Commons standing committee on finance and economic affairs, the committee suggested the idea should be scrapped or sent back for another examination, and the Minister of Finance agreed to do so.

The basic point the measures were designed to stem was taken to be a considerable and serious amount of tax avoidance. I will not go so far as to

call it evasion. There is a fine line between the two, I admit, but certainly tax avoidance.

It is in my view going to be interesting to see if it is possible to hammer those interim measures into some kind of workable shape. I tend to share the view of the standing committee and many other tax experts that as a set of measures they would have proved to be unworkable in practice. In fact, the necessary law in a draft bill form was very close to four inches thick, just for a set of interim measures.

That was probably the last really serious patch that one could have applied to the existing federal sales tax. Virtually everything else has been tried over the years. Given that the patch tends to appear unworkable, this has really energized further discussions towards some massive overhaul and replacement of the existing federal sales tax. In fact, it is not really an overhaul; it is a complete replacement.

The original question had to do with the state of the negotiations and I think I have tried to answer that. I would have to stress, in terms that I believe I described earlier, that most of the matters are solvable. We have in fact come up with ways to make most of them work.

There do remain some particularly delicate, if I can use that term, issues for discussion. They have not been resolved, and obviously during a writ of election there have been no further discussions at the staff level. These issues basically are the application of any tax to the purchases of government, the question of the application of such a tax or type of tax to financial intermediaries, financial institutions, and the question of the tax treatment of housing, which is topical right now. If I might spend a minute or two on each of those it might help the committee.

On the question of the taxation of governments, at the current time Ontario and the federal government are in a reciprocal taxation agreement. These agreements were entered into 9 or 10 years ago; I do not remember the exact year. They were basically engineered to make life a little bit easier for suppliers to government. The essence of the agreements is that Ontario pays a federal manufacturers' sales tax where it is applicable and the federal government pays Ontario retail sales tax.

For the benefit of the committee, if you are looking to see where that is reported, it is in the budget under reciprocal taxation. It is in budget paper C, table C-2, I believe. It is in the general statement of revenues in any event. It is estimated for 1988-89 to be in the order of $93 million.

I should point out too that both levels of government pay each other's gasoline and diesel taxes and that sort of thing. It would be very difficult, for example, for a gas station operator to be asked to sell gasoline at two or three different prices out of a pump that is already metered, carefully monitored and so on, on the basis that it was one government or another's vehicle.

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The question of the application of any new tax to governments comes up in a couple of different guises. Because a multistage sales tax is designed to take tax off business inputs—and both levels of government currently tax business inputs—there has to be a credit mechanism.

A multistage sales tax works on the basis that operator A buys a product and pays tax on it. The operator then does something to it to further manufacture it and sells it to somebody else in the production chain. Operator B pays tax to operator A, operator A subtracts the tax that he or she paid from what he got from B and remits the difference. That in essence is what a multistage sales tax is all about. It is not actually any more complicated than what goes on today, but it is different.

This business of input tax credits might or might not apply, depending on the tax treatment of governments. I think governments have to be aware that they buy goods and services in the marketplace and the suppliers have questions about their own eligibility for various input tax credits.

What I am getting to here is that there is quite a difference between being tax-exempt and tax-free. In a multistage sales tax where one has a tax-exempt entity somewhere in the chain, it does mean that there are no input tax credits claimable up to that point. Tax-free or zero-rated means they are taxable, they just do not in fact collect any and the input tax credit eligibility remains for suppliers up to that point. It might be useful if we discuss groceries. There is a very good illustration there.

The general view around taxation of governments, at least at the staff level, is that we have adopted the view that no government should come out worse off. The mechanics and mechanisms for arriving at that sort of thing are unsettled, but that would seem to be the general result. We would try to devise options that would produce a wash transaction, if you will.

In the case of the application of such a tax to financial institutions or financial services, there are around 40 countries in the world that do apply multistage sales taxes of one description or another. In Europe they are called value added taxes; they are exactly the same thing. No one of those 40 or so countries has been able to apply such a tax to financial institutions.

We are working with the federal government to try to devise a way to do it. However, trying to apply such a tax on financial margins is a very difficult technical matter in terms of trying to define what in fact is the margin. There also has to be some view to the fact that money markets are truly global and the competition is intense and one has to pay a little bit of attention to those things. We do not want to place the Canadian financial industry at a competitive disadvantage vis-à-vis the United States or Britain or France or Germany or anybody else.

Most of the propositions that the staff group has looked at to date look problematic. One can engineer them in theory, it is the application and the behavioural response you have to worry about.

The Department of Finance in Ottawa has spent a lot of time working around this problem. It has not been discussed with the other jurisdictions, so I am not able to enlighten the committee really as to what the latest proposal is because I do not know what it is. We are not likely to find out until after November 21 at the earliest. It is not a difficult problem to tax basic service charges in the financial institution sector. I am thinking here of the charges for a safety deposit box, chequing account and things like that, because they are out there.

It is the case, though, that those are really the retail services. If one were to apply such a tax, I do not think, in general principle, it is a great idea to apply it simply because you can find something to define as a

tax base fairly easily. I also recognize that there has been considerable pressure, particularly on the banking community, in respect of service charges in the last six or eight months.

In the case of housing, the initial white paper proposals provided for the application of whatever replaces the federal sales tax to new housing, not to resales and not to residential rents. There is no question that there may be price effects. Currently, both the federal government and the Ontario government impose sales taxes on building materials. The effect does vary, depending on where the building is and its structure, but in rough and ready terms the price of every new home includes about three per cent. Three per cent of it is federal sales tax and about three per cent of it is provincial sales tax.

All provinces, with the exception of Alberta, which has no sales tax, tend to apply their taxes more or less the same way. They are not all exactly the same, but for rough and ready comparison purposes that is about how it works. That is the sale price—I must stress that—the final sale price.

With the application of the proposed new federal sales tax, that tax would be applied at the final selling price. It would not be buried in the building materials. In the absence of some form of adjustment, to be quite candid, yes, there would be an increase in prices. The matter has been raised quite strongly at the staff level with our colleagues in Ottawa that one should be very careful around the question of entry into the marketplace.

The Minister of Finance has latterly—I am thinking here of a statement that he made in Regina on September 6—indicated that if his proposals produced an entry to the marketplace problem, appropriate measures would be taken at that time. I am not exactly sure what that all means, but that does represent a fair commitment. In fact, he made the same commitment earlier this week.

If there is a national sales tax—I would remind the committee again that is the code for the joint federal-provincial effort—indeed the price effect would be heightened because the tax would be applied at the end rather than somewhere in the middle. It is a matter of serious concern, particularly around entry to the marketplace.

One of the problems here is that to take the construction sector out of the tax base in respect of residential accommodation is technically almost impossible since a board is a board and who knows where the board went? It is very difficult to tell which ones went into houses and which ones went into shopping malls. It is not an insoluble question but we certainly have not solved it yet.

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In terms of the future process and events, again a great deal depends on the results of the pending federal election. The discussions at the staff level will continue. It is likely, again depending on the results of the election, that ministers of finance and the provincial Treasurers would meet some time late in January to consider various options as worked out by the staff. No doubt they will not all be acceptable and we will be asked to do a little more work on some of them.

The earliest possible time federal sales tax reform—whether it is a national sales tax or federal only—could occur would be two years after an

announcement of a final plan. It would take that long to put the mechanism in place.

Mr. Wilson himself from time to time has speculated, suggesting 1991 at the earliest for this overhaul. It is certainly the case that something will have to be done. Whether it is a joint federal-provincial tax or federal only has not been settled at all. In fact, the question has not been put in just those terms to the ministers who would have to consider it.

To wrap up my initial remarks, I would point out that it is not just a case of various bureaucrats meeting as a task force, and indeed my colleagues in Ottawa as well; we have been meeting with anybody and everybody who is remotely interested or who has sought us out and in fact we have been actively soliciting views and inputs. This goes back to my point that the process this time has been very open and very constructive. We have received a lot of good advice from a lot of different organizations, various home builders associations, the Canadian Tax Foundation, Tax Executives Institute, major corporations, all government ministries of course, the Association of Municipalities of Ontario and various other such groups.

It has been very helpful in terms of coming to some potential resolution of some of the technicalities. This kind of tax, as proposed, is new to North America. While it has been in existence in Europe for some considerable period of time, I guess close to 20 years in various forms and shapes—and there are lots of academic studies that would assure you that this is the absolute perfect way to go—in operational terms it is not a simple kind of tax to deliver.

We are trying to proceed very carefully, one step at a time. There is no point, in my view, of making the same mistakes that other jurisdictions have made. We can probably make our own without too much difficulty.

On that note, I would be happy to answer questions, if I can.

<u>Mr. Chairman</u>: I think a number of questions come to mind. I have Mr. Haggerty and Mr. Pelissero, who have indicated an interest in asking some initially.

<u>Mr. Haggerty</u>: In listening to those comments, it is not a very promising outlook for Canadians, is it? We are going to be taxed to death. That is about what you said there.

I was concerned about your talking about the taxes, the national sales tax and the goods and service tax. I understand that if you have to go into the dentist's office there is going to be a tax on whatever he does. It could apply to the medical profession; it could apply even if you took your car into the garage to have the oil changed, there would be a service tax on that and no invoices, I guess.

The value added tax is one of the things that I found interesting in our trip to Europe, in particular to Brussels, in dealings with the European Community and the General Agreement on Tariffs and Trade facilities in Geneva. The value added tax was one of the areas when they went into the European Community that was applied. They have lost the tariffs from one country to another in goods going in, so they have been able to come back and work an added value tax. I think 12 per cent was mentioned and they are talking about allowing a three per cent range in between there, but I understand all goods coming in to any country within the European Community—I think there are 12 of them—the 12 per cent value added tax is applied then.

When you look at it, they have done away with the tariffs. We know that the federal government will be losing, I guess just with the Americans, $2.2 billion and the remaining 20 per cent of the tariffs that are applied now to taxes coming in. We know that the government will have to pick up some revenue, but to get into this area and say it is going to look for other areas of multistage tax, areas that it had never even thought about or considered about taxes—

The economists or whoever deals with this, the minute you start raising taxes, you add to the rate of inflation and then we start another spiral. You mentioned homes, the three per cent federal and provincial sales tax where the total would be six per cent on the final selling price of that home. It means here in Toronto, we are looking at $12,000—maybe higher than that on $200,000, and some of the homes in Toronto are higher than that—given to the government and for what? It comes back that the consumer who is paying for the thing is going to be demanding higher wages, more income, to pay for the increase in taxes.

I suppose we could look at the forecast of a recession. There is a downturn on the American side right now as we enter into free trade. We will probably get a feel of this thing six months down the road. Again, when you get into a recession, there is a loss of consumer buying and a loss of taxes.

Mr. Chairman: Your question, Mr. Haggerty?

Mr. Haggerty: The question is, when you get into this area, this vicious circle that is being proposed, and you get into a downturn in the economy, there is a bigger pressure then for the government to get in with other financial aids to offset a recession. What do we gain? In the long run, what do we gain?

Mr. Chairman: Just as a point of clarification, I do not recall any evidence when we were in Europe to the effect that there is in place a value added tax of 12 per cent no matter what country you go into. That might have been a dream that occurred in Brussels. My understanding was there were different value added taxes in different countries and they are still arguing about that.

Mr. Morin-Strom: We heard that their objective was to get them all within a five percentage range from 14 per cent to 19 per cent.

Mr. Haggerty: It is now at 12 per cent.

Mr. Morin-Strom: Some of them may be 12 per cent; some are quite a bit higher than that.

Mr. Chairman: I do not think it is settled at all.

Mr. Haggerty: Those were the notes I had written down, because they talked about it as one of the questions some member had asked. They said there was now a 12 per cent value added tax on all goods coming in. That is what I understood. It has to be that way if you are going to have free trade or fairer trade.

Then they said they were looking at a problem area where they would have to venture into an area that allowed some countries that may not be as healthy or wealthy as the others to apply an additional three per cent. They are looking at a range there that would be acceptable to the 12 countries. That is the way I interpret it.

Mr. Chairman: I am looking at an article written by David Davies of Duke University in the Cambridge University Press in 1986 which suggests that the countries of the economic community have varying valued added taxes, at that time ranging from six per cent in Ireland and Italy up to 20 per cent in France. I think Mr. Morin-Strom is correct in saying there is a strong movement afoot in Brussels to try to unify this.

Mr. Haggerty: I thought there was an indication that it was somewhere at 12 per cent and they were looking to put in a three per cent range if you want some equality in that area.

To get back to my final question, when we find that the government has to come up with additional aids to revive the economy again, it changes the whole budget, does it not, that they are requiring more money? You wonder if it is the direction we should be going, to be taxing everybody to death. I know there has been some special consideration given to certain exemptions under it. You talked about it, but you were not very specific in that area. Could you be more specific. There are two questions.

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Mr. Chairman: You are asking him if this is a direction towards more taxation and consequently more inflation, and if it is the direction in which we should be going. It is a difficult question to ask a civil servant, but in any event, see what you can do with it.

Mr. Leonard: It is an interesting one. One thing I would like to clarify right at the outset is that there has never been any question on medical services; they are not part of any kind of sales tax reform tax base. The Minister of Finance for Canada stipulated that right up front. Equally, he included education services as well as not being part of the tax base. He has also laterally, if I could touch on one of your comments, indicated that there is some difficulty around the matter of dentistry and some solution will have to be found for that.

I could also suggest for the benefit of the committee that I did hear some debate around rates in the European Community. The lowest value added tax rate in Europe right now is a two per cent rate and the highest is 38, both of which are in Italy.

Mr. Chairman: Both are in Italy?

Mr. Leonard: Both of them are in Italy. As a former tax administrator, I would be willing to wager they do not collect a great deal of tax at the 38 per cent rate. There is a significant incentive not to comply. That, as my colleague reminds me, is the question facing the European Community now, which is really a tax harmonization question as they move to the abolition of various trade barriers. I think, Mr. Haggerty, that is where your 12 per cent with a variation of up to three points on either side is sort of the theory. Whether the European Community can agree to that is up to wiser heads than mine to speculate on.

In the case of the application or the creation of a new tax, what we are seeing here is a worldwide trend away from the taxation of income and savings, if you will, towards the taxation of consumption. As trade barriers get removed—the European Community is the model, at least in theory—if you are to be capable of competitive pricing, you do not want to export your tax into

some other jurisdiction in the form of costs of your exported goods; hence the shift to taxing domestic consumption.

Right now, given the existing federal sales tax, and frankly, parts of the existing retail sales tax in Ontario and other provinces, again excepting Alberta, there are certain amounts of those two taxes buried in the price of every set of goods that we export to other world markets. It sometimes is almost impossible to measure it and at other times it can be as much as two per cent of the landed price of what we are exporting, and in a few cases even higher than two. That is a significant issue if one is trying to compete with manufacturing operations in southeast Asia, for example, where costs, particularly labour, are very low. Hence, as I said, the general shift out of the taxation of income towards the taxation of consumption.

As a group of staff, both federally and provincially, we have been charged with the parameter that, on balance, whatever the sales tax reform we design turns out to be, it should be, as the phrase goes, revenue neutral. In Ontario that means that whatever the replacement is, if we as a province are to participate, it would have to be roughly equal in today's terms to about $7.8 billion, call it $8 billion even. That is one of the parameters I have to work with.

In Ottawa, when they say revenue neutral, they are looking at a combination of income tax and sales tax--I am trying to get to your recession question--and the basic plan is that to the extent there is more money generated out of sales taxes, that is designed to buy, to use the jargon, rate reductions on the personal income tax side, eliminate surtaxes and in particular to finance a very large, much larger than today in any event, refundable sales tax credit. There have been various ruminations about paying it monthly and in advance and so forth.

We have not seen any kind of design of such a matter, but to the extent that there is more money left in the economy by virtue of lower income taxation, albeit at the expense of higher consumption taxation, it should come out about even. In fact, most private studies done suggest that there would be a very mild positive effect on the economy.

I cannot dispute for a moment the question around entry into the housing market. It is very serious. To the extent that the collective brains of bureaucrats can come up with options for ministers to consider, we are going to do everything we can. We are working hard at it right now.

At the time of imposition of any of these taxes, it is true that regardless of whether it is a goods and services tax, which is the New Zealand model, or a national sales tax as we are calling it here, or a value added tax as they call it in Europe, you do get a one-time uptick in any existing consumer price index or inflation index. This is true of virtually any kind of commodity tax, to the extent that it is measured with a consumer price index. There are a lot of other indices one would use to decide whether or not there really is massive and serious pressure on the inflation side of the economy.

I am not perhaps the best one to ask about that. I presume that my colleague from the office of economic policy is likely to be here. The fiscal review, as you know, will be published some time late this month.

Mr. Chairman: We will be dealing with that.

Mr. Leonard: Yes. I would suggest to the committee it is a

reasonable question to ask Dr. Purchase. He can certainly enlighten you rather better than I can.

I think some of the questions around starting another inflation spiral—I am sure there is nobody, certainly nobody I know, who wants to see that happen again, not the way it began in the middle 1970s.

Mr. Haggerty: But we do not know exactly what revenues he is going to generate, do we?

Mr. Leonard: No, we do not.

Mr. Haggerty: There have been some conflicting views out there.

Mr. Leonard: Until we see what the final base is going to look like—for example, what are basic groceries? It sounds like a silly question.

Mr. Haggerty: It is food on the table, is it not?

Mr. Leonard: I think we all have a mental picture that is like that, but when it gets into the realm of products that are for sale, it is not easy at all.

Mr. Haggerty: Surely you must have come up with some numbers, an estimate.

Mr. Leonard: Yes, and there is some reasonable evidence to suggest that depending on what the final base looks like, in terms of a per point yield, it is somewhere in the $3-billion range on a national basis.

Mr. Haggerty: That is just one scenario though, is it not?

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Mr. Leonard: Well, federal only. The per point yield federally would be somewhere around $3 billion. It will walk around that point, depending on what is done about financial institutions, what is done in the matter of housing and in a number of other issues. I have a long list of them here I can go into. It will be somewhere around $3 billion per point. The question is, exactly what target will the Minister of Finance set after he or she is picked?

The other part of stage 2 tax reform is further income tax reduction and an expanded refundable sales tax credit. If the decision is to go with, for example, a very large refundable sales tax credit, then you will see the effect in terms of the sales tax rate that will be higher. I could give you the example that at one stage, there was some speculation that the federal rate would be about eight per cent—somewhere around six, seven or eight per cent. After the decision was made to take basic groceries out of the tax base, plus prescription drugs and prosthetic appliances, that had a rate effect of a little over one per cent.

Now we are looking at eight or nine as a federal rate, compared to its current 12 per cent, which is buried and hidden. A lot of people are not aware of the fact they are paying that tax. You just do not see it. Does that help you?

Mr. Haggerty: You have provided us with some additional information. I do not think it is going to help us any.

Mr. Chairman: It will help us. We have to get to the conclusion whether we should we do it.

Mr. Morin: My life insurance policy is paid out. Is this taxed too?

Mr. Leonard: Yes.

Mr. Pelissero: You mentioned that most of the European countries have value added tax systems. What exemptions do they have, compared to the exemptions we have identified? Are they any different?

Mr. Leonard: It varies according to each country. Preferential tax treatment tend to be a function of sort of who is dominant in an economy. Holland, for example, I think has three or four different rates around various food products, depending on what Holland produces and what Holland imports. There is special treatment of the wine industry in France and Italy.

Mr. Pelissero: Could you expand on that a little bit for me?

Mr. Leonard: I understand they have a lake of the stuff over there. Generally, the agricultural community is extremely well treated, if you like, within the general value added tax structure. There is a widespread belief that there are really only two or three rates in Europe. In fact, there are about 40 different rates, depending on where you are and what commodity you are trying to buy.

Mr. Pelissero: Would it be different for someone who was producing the products domestically as opposed to products coming in by importation?

Mr. Leonard: That is right.

Mr. Pelissero: That has never been challenged by the exporting countries in terms of being discriminatory? Is it the General Agreement on Tariffs and Trade?

Mr. Leonard: It is challenged routinely in the European Community court. Britain, I believe—I cannot remember the details—just lost a case in that court.

Mr. LeBlanc: Perhaps I could add one thing. The intent in the 1992 rationalization of rates in the community is to take all these myriad rates and reduce them to essentially two bands, a lower and a higher. To a large extent, if all the countries now involved comply with that, there is, in effect, going to be a considerable reduction in the disparity among countries, anyway.

I think we should clarify, too, that there are other forces which give rise to the two rates, the higher and the lower, besides whether it is imported, and that has to do with the perception of whether it is a luxury good as well and other sorts of policy preferences within the country of origin. It could be other things than merely importation.

For example, the structure within food often reflects a perception of basic versus some luxury goods. So you would find caviar, for example, at a high rate and basic needs perhaps at zero or a very low rate. There are a

variety of other forces; it is not purely an importation issue. We did not want to mislead you that that was sort of the driving force behind some of the differences of rate structures.

Mr. Pelissero: Using wine as an example, if the concept is to be "fair" and you are exporting wine from Italy into France, in terms of the tax structure, if they are both value added tax systems and they are going to be going towards the 1992 rationalization, what effect will that have on Italy sending wine into France and at what tax rate?

Mr. Leonard: If the European Community manages to get some rate homogenization, if I could use that term, in 1992, it will become much more a question of who can produce and deliver the product, and at what price, that will determine its viability in the marketplace. It will not be settled by applying different tax rates.

Mr. Pelissero: Okay.

Mr. Leonard: That is the theory.

Mr. Pelissero: That is the theory.

Mr. Leonard: I would not want the committee to think that we are so naïve as to believe there would not be some other way of deciding that somehow or other, French wine should not be sold cheaper than Italian wine in Italy or vice versa. Ways and means can always be found to do those things.

Mr. Kozyra: With 20 years' experience in Europe under the value added tax, is there any evidence to indicate that the shift from income and savings to taxation on consumption prepares a country and its economy to handle a boom-bust cycle better, that it tends to level off the peaks and valleys? It certainly would be a benefit if it did that, to prepare to handle the economy.

Mr. Leonard: I cannot deal so much with the economic cycle except from the standpoint of governments' revenues. The broader-based kind of consumption tax one has, in principle will not be so sensitive to economic downturns, the broader the base. It will be sensitive but not catastrophically so. Equally, on the upturn side, it will tend to generate a lot of money. It will be very responsive in an economic boom time. To the extent that it does not totally deteriorate during the down part of the cycle, which is inevitable, it does leave governments with the financial wherewithal possibly to give the kick-start, if you like, to the economy.

To that extent, I can say that they certainly do not aggravate the problem. In my view—again, I am not an expert on this—they tend to be more stabilizing rather than destabilizing, if I could put it that way.

Mr. Kozyra: The government is given more levers or tools to cope with it more handily and respond more quickly.

Mr. Leonard: Yes, and without the necessity maybe of crippling capital markets by borrowing.

Mr. Kozyra: Does the government find it politically easier to implement those things than at the present? Is there evidence of that?

Mr. Leonard: In Europe? It seemed to be. It is just a fact of life.

On the other hand, it is difficult to translate completely the European economy on to the North American; that is to say, Mexican, American and Canadian economies which tend, so far, to be a little bit less centrally managed.

Mr. Kozyra: Theoretically, whether in Europe or here, would the government find it easier to react with income and savings or consumption taxes?

Mr. Leonard: It is much easier to react with consumption. You can move very quickly on that side.

Mr. Kozyra: Thank you.

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Mr. Chairman: You say there is a worldwide trend away from income tax to consumption tax. I had not been aware of this when we first started hearing about something called tax reform two years ago, and I am disturbed that this is the way this is going. The first round, getting rid of loopholes and so forth in the income and corporate tax structure, was a positive move, but this one does not seem to be, and I think you are sensing that in some of the questions.

To what extent can we resist this? Supposing we have a federal government that insists it is going to have a national sales tax, what are our options? If we want to stay out of it, what do we see in the future?

Mr. Leonard: Perhaps I could just touch briefly on the question of the trend and then come to your basic question.

The trend away from income and savings and towards the taxation of domestic consumption, if I could use the jargon, is very strongly driven by, again, a piece of jargon, the globalization of markets and the intense competition that is breeding. We have industrial powers now that are very strong. For example, and I am sure it is fresh in everybody's mind, South Korea, 15 years ago, was not an industrial power at all, in terms of North America anyway, and now is a real production engine, if you like, of everything from automobiles, to electronics, to heavy shipping and heavy industry. All that has happened very, very quickly, and they must export in order to support that.

Mr. Haggerty: Where did the original investment come from to get them into this industrial expansion?

Mr. Leonard: The Japanese, the Americans and some Europeans. I mean, it was not exactly a totally backward country to begin with.

Mr. Haggerty: No.

Mr. Leonard: Once they decided they were going to go, it is obvious that they were more than capable.

Mr. Haggerty: I can see that.

Mr. Leonard: The trend is being driven out of the globalization of markets. Keep your taxes at home. Keep them out of the price of whatever it is

you are trying to export into a market where you are competing with somebody else who does not have that tax effect in his pricing.

In terms of the options, the federal government clearly, if it so chooses, can get into the business of implementing any kind of sales tax reform that it wishes. We have here in Ontario a fully mature retail sales tax operation and a fully mature administration. One of the options is simply to carry on as we are today.

Another option is to join up and simply add our retail sales tax, because, in effect, federal tax reform really is going to be a retail sales tax. They may call it whatever they wish, but it is going to be paid by the final consumer, just as Ontario's retail sales tax or anybody's retail sales tax is paid by the final consumer.

I think you used the word "resist." It is a national government and it can do as it chooses.

Mr. Chairman: I am not suggesting we can force them not to do it, but I am wondering, if they do it with the other provinces, what is the downside to our trying to not be involved and continue with our own tax system?

Mr. Leonard: I think the big problem would be the added compliance cost for business of trying to deal with, in our case and in the scenario you are describing, two taxes to be collected and remitted monthly. They probably would be on different bases. You are going to have business operators selling things across the counter that the federal government says are taxable and we say are not. Trying to get that differentiation all the time with every transaction is definitely going to make the business operator's life more complicated. Not impossible, but certainly more complicated. If I had to pick a place that I would be concerned about, it would be the compliance cost for the business operator.

Certainly, too, I think the taxpaying public would be left in considerable confusion.

Mr. Chairman: Quebec has a separate income tax now and that must make for more paperwork there than we have in Ontario. Does that put them at a competitive disadvantage to us?

Mr. Leonard: Not on their income tax side. Although it is true that they do have their own income tax administration, the two laws—federal and Quebec—are virtually identical. Quebec spends, as a government, a great deal of time trying to keep them in line, to keep the compliance cost as low as they can. It is still higher than for a business operating here, in Alberta or any other province, but they do work hard to keep them as small as possible.

I want to add here—as my colleague reminds me, there is another consideration.

But to go back to Mr. Chairman's question, in terms of resisting, I can only say again, the issue would be one of compliance cost for business and confusion. That is the downside. The upside is, we are perfectly capable of carrying on as we are right now.

Mr. Chairman: This leads to the next question I have, which has to do with the extent to which we can be partially involved and maybe not entirely involved. You were talking about a tax that will be much more broadly

based than our sales tax at the moment and you talked initially about some areas that are obviously up for discussion—the extent to which farmers and fishermen are involved; crown agencies; we are constantly being lobbied by schools and universities. Why should they be paying sales tax to us when the money simply comes in and it goes back out to them? There have been problems in the past with our sales tax with regard to whether or not it should be on diapers, or whatever.

To what extent can we manoeuvre if we get involved in this national sales tax? Will there be areas in which we will be able to be perhaps more progressive than the rest of the country, if we wish?

Mr. Leonard: That, if I may, speaks to one of the issues that the national sales tax working group has spent a great deal of time on, and that is delivery mechanisms—administration, for the want of another term.

There are three basic options. One is that if there were to be a national sales tax—and it is important to remember that context—the first option has to do with Canada running such a tax on behalf of the provinces and itself. The second one is some form of national sales tax commission. The third one would have the provinces run the tax on behalf of Canada and themselves. That is not dissimilar to the West German model. All three have been pretty thoroughly examined, and those are the three basic ranges.

If there were to be a national sales tax, the sort of absolute minimum requirement is that the tax base has to be the same everywhere in the country. Rates can vary, but the tax base itself has to be the same.

Now, to get directly to your question, Mr. Chairman, that does not preclude a province from running its own rebate or grant or payment type scheme. It is the case, though, that such schemes would show up, not as a reduction in tax revenue, but rather as an expenditure. It would not be a tax expenditure, in other words, money that was foregone. It would be a direct rebate and would be accounted for that way. But in terms of the way you put the question—could a province be more, I think your word was progressive, than another one?—yes, the mechanical wherewithal would still be there to do that.

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Mr. Chairman: You are saying the accounting of it would still show a lot of increased income and just more increased expenditure?

Mr. Leonard: Yes.

Mr. Chairman: Would we be able to perhaps work out a fairly sophisticated structure that would maybe take the national base and revise it with repayments? In other words, rather than the politically flashy thing where we are going to give $30 for every child who has diapers or something of that nature, would we able to actually do a different one ourselves and then send cheques out all the way through the value-added system?

Mr. Leonard: Yes, the key to any form of national sales tax is a uniform base. As I said before, that does not preclude any participant from sending cheques out, but you could not have a situation where—pick a commodity.

Mr. LeBlanc: Diapers.

Mr. Leonard: Diapers. You are going to have a situation where diapers——

Mr. LeBlanc: The policy will rise and fall on diapers.

Mr. Leonard: Yes. You could not operate such a tax where you had a situation where diapers were exempt in Ontario and taxable in Quebec. You just could not.

Mr. Chairman: We could not set up our own base whereby we somehow rebated that money?

Mr. Leonard: If the province continues to run its own tax rather than be in a national sales tax, change the base anyway——

Mr. Chairman: If we do that, there may be all kinds of areas in the global economy we are going to suffer from in the final analysis?

Mr. Leonard: Yes, the impacts would be very hard to predict. You could predict what might happen to the final consumer, but back up through that production chain it would be very hard.

Mr. Chairman: By the same token, you are saying that it would be too sophisticated to try to agree to the national system and then subvert it to some extent by a more progressive system of rebate.

Mr. Leonard: No, that is perfectly viable. The government could choose to run rebates, omissions or what have you any way it likes, because it is money. But the base itself and the actual application, crediting and so forth of the tax through the production chain out to the final consumer would have to be uniform across the country. It means that the benefit would be somewhat delayed. It would not occur at the exact point of consumption. It perhaps would be on application or so on, but certainly you can do that.

Mr. Chairman: In other words, you are saying we could that, supposing we want to make diapers exempt?

Mr. Leonard: Right.

Mr. LeBlanc: They would not be exempt. They would be rebated.

Mr. Chairman: I realize that, and the benefits would be delayed somewhat.

Mr. Pelissero: Resale of houses would be taxed as well, right?

Mr. Leonard: No.

Mr. Pelissero: But new houses would be?

Mr. Leonard: Right.

Mr. Pelissero: What is the thinking behind not taxing the resale of houses?

Mr. Leonard: It is a theoretical part of value-added taxation. If

the item is used, as in a resale house, there is no value added. It may very well be worth more than it was.

Mr. Pelissero: Then the sales tax would come off used automobiles as well?

Mr. Leonard: That is the general theory. I do not know that this is exactly how it is going to come out in the end.

Mr. Pelissero: I just had a letter from a constituent who talked about the fact that he has bought a new car for $10,000. When he goes to resell it—let's assume it is sold three or four times over—somebody is paying eight per cent sales tax. He is suggesting either no tax or, because it is a used car, maybe four per cent as opposed to eight.

From what you are saying, possibly, in theory, under the national sales tax or the value added tax or whatever you want to call it, there might not be sales tax applied to used items. We will include "items" to mean houses, cars, clothes, diamonds—

Mr. Morin: Diapers.

Mr. Pelissero: Diapers.

Mr. LeBlanc: Anything to which the tax would apply in the new form would not apply.

Mr. Pelissero: So it is a new tax, then, basically. Okay.

Mr. Chairman: This raises another question. Suppose we get partially into this and we end up with a three per cent sales tax, which is what Leslie Frost initially put on. Could we do that and still put the rest of it into the national sales tax plan and in that way continue both tax bases to a certain degree?

Mr. Leonard: Certainly it is technically possible to impose any kind of direct consumption tax at any kind of rate.

Mr. Chairman: So we are not opting out of that, then? We are not giving up that power?

Mr. Leonard: No.

Mr. Chairman: You agree that we are inevitably giving up some power in going into the national plan, just as—

Mr. Leonard: The basic flexibility which would be given up is the province's unilateral capability of deciding that this is exempt or this is taxable. That aspect is given up. It does not alter the fact that the province could decide, "We'll leave it in the tax base, but we'll give a rebate." That flexibility remains. But the flexibility of base adjustments is not there.

In terms of the design of any kind of national sales tax, one of the things we bureaucrats have worked at is some set of decision rules where various ministers would get together and decide to change the base. To be candid about it, it is a little bit like trying to devise a constitutional amendment formula, which is one of the models we looked at.

Mr. LeBlanc: It is probably worth clarifying as well that while we would be perhaps "giving up some of our flexibility," we should stress the fact that the federal government would be in the same position. There is in fact an agreement on a base and that is the basis on which the arrangement is begun. From our point of view, they unilaterally could not make adjustments without the agreement of the whole, as well. It is a multilateral arrangement in terms of the base.

Mr. Chairman: I was thinking of the income tax collection system now. They do not seem to have had any problems changing things they want to change.

Mr. LeBlanc: That would not be the basis of this agreement.

Mr. Chairman: This will be different? You are saying this will be almost a quasi-constitutional entrenchment?

Mr. Leonard: It behaves that way.

Mr. Chairman: All right. I am going to let Mr. McCague in here and then I know Mr. Haggerty and Mr. Pelissero want to get in again.

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Mr. McCague: The presentation from these gentlemen this morning is a little unusual in that we have the Treasurer (Mr. R. F. Nixon) defending, I think it is fair to say, the national sales tax, and basically these gentlemen are defending it also. That probably is because you are wearing your hat of being on the working group this morning rather than the one of assistant deputy minister of tax reform. Without putting you entirely on the spot, tell us what is wrong with national sales tax.

Mr. Leonard: All right. In the first case, it is complex in the extreme. Its aggregate complexity is probably no worse than the existing combination of sales tax regimes, but it certainly is going to look that way.

I do believe that there is some serious risk around compliance levels, at least partly driven on the broadness of base and partly a function of whatever the rate would be. I fully appreciate the theory that multistage sales taxes are supposed to be self-enforcing. At one stage in my career, I was the assistant deputy minister of taxation in the Ministry of Revenue, and I can truthfully say to you, sir, that there is almost no limit to the ingenuity when it comes to ducking taxes.

Mr. McCague: On both sides.

Mr. Leonard: Well, we were trying to be effective at collecting them and there was at least an equal amount of energy being put on the other side.

I think that at least at the initial points in such a tax, I could not see a Treasurer or Minister of Finance standing up and saying, "Effective midnight this night, we are now going to have this kind of tax." It is a long, laborious process to put it in place. Certainly the first three to five years, unless it is done very, very well, would be difficult times for governments, for taxpayers, for tax collectors and for tax administrators. It is new.

I did not really wish to give the impression that I was trying to defend the national sales tax, because in an absolute—

Mr. Pelissero: That's George's interpretation.

Mr. Leonard: From a tax professional's point of view, it has a lot of good things going for it. It has those major weaknesses that I just described. From a tax theoretician's point of view, it has a lot going for it. In a practical sense, the theory does not work nearly the way one would have one believe.

I have lately been privileged to be able to tap into the experiences of a colleague, a taxman, if you like, in West Germany. This gentleman is a tax administrator, not a tax theoretician. When the theoreticians say, "Well, of course it works perfectly if all the lines cross in the right place," it is useful sometimes to go and talk to a tax administrator and ask, "What's really going on out there?" It is not the piece of perfection that people would have us believe.

On the other hand, the existing federal sales tax probably has as much wrong with it as it is possible for a tax to have, and the federal government will have to do something. The fact that they have to do something about that does not in any way, shape or form compel any province to do something, other than from the standpoint of cost of compliance, as the chairman said. There is no such thing as a perfect tax by any means.

Mr. McCague: I understand that, and I think it is valuable that you did put on the record the reasons you think it may not be so good, because in fairness, you did not address that in your other remarks.

The chairman has asked about the options for Ontario if a national sales tax is introduced. Would you like to comment on the signal it would give to business if we were to opt for something different than the national government did, given that most of the provinces appear to be going along with it? I take that from the fact that you mentioned how well the negotiations had gone to date with the 13 participants.

Mr. Leonard: Maybe just around the question of the negotiations and the 13 participants, I should make it very clear for the record that no province is committed to joining up. Each one of us as a provincial civil servant is trying to pay serious attention in terms of giving our various ministers advice, but the fact that it is proceeding in a reasonably constructive fashion, I do not think should be construed necessarily as that anybody is ready to sign on the line.

In terms of the signal to business, I would have to presume that the signal would be taken negatively since the business community has been, not totally homogeneous, but pretty strong in its view that there should be a national sales tax and that the provinces should enter into arrangements with the federal government and have a uniform base and one set of rules all across the country. Since that has tended to be the view of business, I would have to assume that anything else would be taken as a negative signal.

Were Ontario to be out of the national sales tax while significant other parts of the country were in it, a business operating only in Ontario would have to deal with filling out an extra form. To the extent that this is taken negatively, well, fine. A business operating in other jurisdictions as well as Ontario would definitely find its life complicated, and if I could presume to put words in the mouths of some of these people, it would not be taken as a very positive signal.

To take the third case where you have a business dealing multijurisdictionally in Canada and offshore—let's take the United States as an example—as that business expands, the question is, where do you produce and originate from? I think the signal just taken in isolation would not be a very positive one. There is a whole pile of other things that people use to decide how and where to expand; it is not just the presence of a certain amount of paperwork around the tax. It is certainly one of the considerations when looking at the issue, but it is not the only one.

Mr. McCague: Just one more question, Mr. Chairman. Obviously, the companies that operate worldwide have experience with a lot of different taxation systems. You mentioned a large number of groups that you had spoken to about tax problems. In most countries, it is a value added tax. Do the companies that have experience with it in other jurisdictions strongly endorse that?

Mr. Leonard: Yes. The business community has generally supported the notion partly because the existing tax is a mess and partly for competitive reasons. For very large companies dealing worldwide, the complexity or more paperwork is completely immaterial to them. They are used to dealing with 100 or 150 different jurisdictions, be they national or junior levels, and it does not figure. Of the ones I have talked to, their comments generally are positive in an operating sense. The question of complexity and paperwork and all that stuff is really far more germane to the smaller, local operators.

Mr. Chairman: We have been called in for a vote, but we do have some housekeeping matters. Mr. Morin, a very quick question.

Mr. Morin: I have two questions. If free trade were to go through and if it were not to go through, what effect would it have on American companies established in Canada?

Mr. Pelissero: Add the value added tax.

Mr. Morin: That is right. Would they be inclined to go back to the United States?

Mr. Leonard: We have value added and no free trade and value added and free trade?

Mr. Pelissero: Yes.

Mr. Leonard: Okay.

Mr. Morin: In two minutes.

Mr. Chairman: That gets very hypothetical.

Mr. Leonard: The company generally will tend to prefer the value added tax because it tends to take the tax component out of the price of its finished commodity as it moves it into an export market. In terms of its decision to locate, as both of your questions have that in them, north of the border as opposed to south of it, it would more likely locate north. The existing federal sales tax is not any kind of incentive to locate in Canada.

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Mr. Pelissero: But a value added tax would?

Mr. Leonard: A value added tax would neutralize the choice.

Mr. Chairman: There is a good discussion of that very point in a booklet by Carmichael and Macmillan that is put out by the C. D. Howe Institute. You may wish to look at some tables a little later.

Mr. Leonard and Mr. LeBlanc, thank you very much. You have helped enlighten a rather murky issue which we need to have enlightened a great deal. Obviously, if this matter is pursued further, and perhaps we will not know until after November 21, there is no question it is going to have a dramatic impact on life in Ontario, if not on the rest of the world. I hope we can continue to count on you to assist us as we continue our deliberations. Starting next week, we will be hearing from the private sector on it.

Mr. Leonard: The committee is most welcome and we will be happy to answer any question the committee has at any time.

ORGANIZATION

Mr. Chairman: There are a couple of things we should decide immediately without wasting any more time, if the members of the committee could stay here for a few minutes.

The prebudget hearings will commence only after we have the grey book from the Ministry of Treasury and Economics. You will recall that the Treasurer (Mr. R. F. Nixon) said that to have any impact on the next budget we should have a report to him early in February. Do you wish to advertise? In the past, we have advertised. The chairman is concerned that we try to spend perhaps less time listening to the high-powered lobbyists and try to find the little taxpayer. Perhaps advertising is necessary in order to do that, because the high-powered lobbyists are going to know about our hearings in any event without the advertisement. Do you wish to authorize the clerk to prepare an advertising budget and present it to us so we can get those advertisements out fairly soon?

Mr. Pelissero: For when?

Mr. Chairman: He could have that next week.

Mr. Pelissero: When would we hold the hearings?

Mr. Chairman: The hearings will start, I would imagine, probably in early December.

Mr. Morin-Strom: And go to when?

Mr. Chairman: From what I am hearing, we will likely be sitting again in January. I understand the House leaders have had some accommodation on a two-week Christmas break. Then, if necessary, during a winter break, we would ask for time to continue sitting.

Mr. Morin-Strom: I thought the budget was coming out early this year.

Mr. Chairman: He hopes to bring it out in late March, and I think he indicated he wanted any input from us to be there by the middle of February.

Mr. Morin-Strom: Not the end of January?

Mr. Chairman: Personally, I think January would be better, but when we put it to him he said mid-February is feasible. I think it is probable we would have more impact if we had it in earlier.

Mr. Haggerty: Your intention this time is to advertise for the grass roots of society out there.

Mr. Chairman: There was some discussion about leaving Toronto. There has been some private discussion about that.

Mr. Haggerty: For Florida?

Mr. Morin-Strom: If we are not sitting.

Mr. Chairman: I guess we have to wait on that issue, but is there consensus that we should ask for a budget?

Mr. Haggerty: I think we should head for Thunder Bay and Timmins and Florida.

Mr. Chairman: For now, we will look for a budget on advertising and we will not necessarily say in the advertising whether we are moving.

The question is, should the advertising also deal with this topic, which we can expand in any report we want to give the Legislature on this topic later if we wish, I suppose.

You will recall the Treasurer did think that if the present federal government is re-elected he will likely be faced with fairly demanding questions early.

Mr. Pelissero: Wait.

Mr. Chairman: What does "wait" mean?

Mr. Pelissero: Wait until after November 21.

Mr. Chairman: I would suggest we might want to get the advertising going before that.

Mr. Pelissero: On prebudget, yes, but on tax reform, no.

Mr. Chairman: The question is, though, in asking for input from the general public, do we ask them to comment on tax reform as well? You are saying no because maybe it will be hypothetical. All right, I see. I know what you are saying.

Mr. Morin-Strom: ??tax reform as part of the budget process.

Mr. Chairman: It should always be.

Mr. Morin-Strom: Budget ?? , this changes the tax.

Mr. Chairman: We can certainly put it in an advertisement. Then if there is no impetus coming from a new federal government it becomes redundant. Obviously no one is going to talk about it.

Mr. Pelissero, you wanted to talk about Montreal.

Mr. Pelissero: I just wanted to raise a question as to whether there is any interest in us as a committee or representatives of the committee trying to be in Montreal for whatever status we could obtain, either as observers or representatives of the province or whatever, for the midterm General Agreement on Tariffs and Trade discussions.

For all intents and purposes, it may be a once-in-a-lifetime opportunity. If they are going to continue to do midterm evaluations, they may rotate them around the world and we may not be as close again for some period of time. I just wanted to find out what would be the process by which part or all of the committee or a representative from each of the parties and the chairman would be able to go to Montreal.

Mr. McCague: Go next year.

Mr. Pelissero: What is next year?

Mr. McCague: The next time, when it is farther away.

Mr. Chairman: I think this is the first midterm meeting that GATT has ever had in the negotiating process. Certainly many of those whom we met in Europe presumed we would be in Montreal.

Mr. Decker has pointed out two problems we would have. First of all, we would have to submit a budget to the Board of Internal Economy and explain it to it. We did discuss this briefly before we asked to go to Europe. I think on the wise advice of Mr. McCague, we put off asking about Montreal. Also, we would have to get House authority. It is likely the House will be sitting. That might jeopardize the concept of the whole committee going down.

Mr. Pelissero: When in December are they meeting?

Mr. Chairman: December 5, I believe. December 5 is the magic date.

Mr. Pelissero: From December 5 to December 12?

Mr. McCague: I think it would be presumptuous of us to think of the whole committee going. But I think it would not be unfair to have the chairman and one from each party asked for and see what happens.

Mr. Chairman: Shall we have the clerk prepare a budget for that, including the researcher as well?

Mr. Pelissero: Yes.

Mr. Chairman: Are researchers allowed, or someone to explain to us what we are actually hearing?

Mr. Pelissero: Sounds good.

Mr. Chairman: The clerk will prepare a budget for that and we can deal with it next week.

Third, I wonder if we could have some discussion that we would pass to the standing committee on the Legislative Assembly—we would actually pass the transcript of this discussion—as to the setup of committee rooms.

Mr. Pelissero: I do not like it.

Mr. Chairman: Does anybody want to expand on that?

Mr. Pelissero: I liked the other system where we had basically four rows, two in the middle. This is wasted space in the centre here.

Mr. Chairman: There was a third system we had, too, was there not?

Mr. Haggerty: I would suggest they should be about three feet higher and we put the witnesses there so we could look down at them.

Mr. Chairman: They do that in the United States.

Clerk of the Committee: The setup in this room and in room 151 is experimental. This is a rectangle. Room 151 has an octagon.

Mr. Chairman: That is right, we had an octagon. Can you have an octagon in this room with this system?

Clerk of the Committee: The purpose of the experimentation is to try to improve the appearance that the television cameras get in room 151. They are trying to determine which setup best accomplishes that.

Mr. Pelissero: To me, there is a large gulf between the chairman and the witnesses. With the tables down the centre, at least you are connected and the witnesses feel a little closer to the chairman and the whole process. That is why I like the material in the centre.

Mr. Chairman: Can you do an octagon in this room?

Mr. Haggerty: That means you have somebody's back all the time.

Mr. McCague: I have watched some of the proceedings in the Amethyst Room. I think this kind of a setup is better for the TV because in the other ones you get somebody's shoulder or somebody puts his head over and all you get is the back of it. I think it is uninterrupted for the cameras this way. I do not see anything the matter with this.

I would be interested in your comments. When you had the other setup and I was sitting in the row inside, you had to get away back to get your attention, for instance, or away up to get your attention, depending on what the two or three guys here were doing. From your point, you must have a better command of the whole thing this way than you do the other way.

Maybe it was not so, but it was very cramped when it was set up in the four on this side and this aisle that went up here was very cramped. Maybe there was a little more distance; I am not sure. The other setup is fine if you are sitting on the outside, but personally I do not think it is nearly as good as this if we can all get around.

Mr. Chairman: It never concerned me greatly, but I think you are right in everything you say. Any other comments?

Mr. Haggerty: You could move it back that way. You could probably gain another 2.5 feet here.

Mr. Chairman: We could go back a little bit here.

Mr. Haggerty: Sure. I would suggest that.

Mr. Chairman: It is not that we had that big a crowd today.

Mr. Haggerty: The microphones are not that great either. Sometimes we can hardly hear you speak from here.

Mr. Chairman: Me?

Mr. Haggerty: Yes. You are not too loud there or rather it is the microphone that is not big enough. You should have perhaps a bigger mike there.

Mr. Chairman: Are you hearing me from the mike or are you hearing me directly?

Mr. Haggerty: I can hear you now, but when you get a little bit of crossfire it is difficult to pick it up.

Mr. McCague: One other question on Montreal. I do not know how you can determine what the Board of Internal Economy is going to say, but if you are trying to get some kind of status in Montreal, I do not think you can wait for the Board of Internal Economy. Can you try to work that out with the House leaders or somebody to give you authority, at least to try to get a seat or whatever?

Mr. Chairman: Yes. There is only a month left now.

Mr. McCague: You are probably late now.

Mr. Chairman: All right. We will make inquiries right away on that.

Mr. McCague: I think you should.

Mr. Chairman: Next week, hopefully, we will be hearing from—we have only asked it today—the Consumers' Association of Canada and one of the business groups, probably the Ontario Chamber of Commerce.

Mr. Haggerty: What about the banking institutions? There were some comments made there that we were concerned about.

Mr. Chairman: They seem to get out of all this, do they not?

Mr. Haggerty: They may open the door.

Mr. Chairman: Yes. We are going to hear in a general sense. There are a number of organizations—you can take a look at the list—that Anne has already approached.

The committee recessed at 11:54 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TAX REFORM

THURSDAY, NOVEMBER 10, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Cleary, John C. (Cornwall L)
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Hart, Christine E. (York East L)
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Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pelissero, Harry E. (Lincoln L)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Daigeler, Hans (Nepean L) for Mr. Cleary
Velshi, Murad (Don Mills L) for Mr. Kozyra

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Consumers' Association of Canada:
Smyth, Peggy, President
Delaney, Tom

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 10, 1988

The committee met at 10:04 a.m. in room 151.

TAX REFORM
(continued)

Mr. Chairman: For those who are watching on television, this is a meeting of the standing committee on finance and economic affairs, and we are looking at phase 2 of federal tax reform. We have had so far, last week, one session with our own negotiators who have been involved in some discussions with the federal Department of Finance on this issue.

We welcome this morning our first public presentation--that is, a presentation from the public as opposed to our own ministry. We have representatives here from the Consumers' Association of Canada: Peggy Smyth, the president, and Tom Delaney.

I want to welcome you very much. We are extremely interested in your views on this and how you can guide us as to what we should be recommending to the government of Ontario in so far as a response to these proposals is concerned.

CONSUMERS' ASSOCIATION OF CANADA

Mrs. Smyth: Thank you. My name is Peggy Smyth. I am the president of the Ontario branch of the Consumers' Association of Canada and I come from Sault Ste. Marie. Mr. Delaney is a volunteer with the association as well.

First I will make some remarks that we have prepared, and then Mr. Delaney will make some other comments when I am finished, if I have not said everything that he thought I was going to say.

First of all, the Consumers' Association of Canada, an independent, nonprofit, voluntary organization, represents and informs consumers and advocates action on their behalf to improve the quality of life. It is the largest organized consumer group in Canada. The Ontario branch of CAC, which has prepared this submission, has over 50,000 members.

The major activities of CAC include: consumer education; representation of the consumer interest on a variety of advisory and consultative committees, standard-setting organizations and marketing agencies; presentation of consumer perspectives on public policy issues to parliamentary committees, royal commissions, task forces, government ministers, etc.; intervention before regulatory tribunals, boards and commissions; and operation of a consumer help office. Our national association also conducts research and tests regarding consumer goods and services. We also publish the Canadian Consumer and the consumer magazine in French; I will not try to say that.

At the national level, the board of directors and the annual general meeting set CAC policy on the advice of a provincial presidents' council, regulated industries program council and national issues committees.

Taxation policy has long been a subject of interest and public comment for the Consumers' Association of Canada and our Ontario branch. How much income tax we pay affects how much money we have in our pockets. While sales taxation policies affect the distribution of wealth in society and thus influence the relative ability of individuals to consume goods and services, sales taxes in particular affect the final price consumers pay for goods and services and may significantly add to the burden on low-income consumers. Indeed, recent sales tax increases have contributed to the unsatisfactory performance of inflation as measured by the consumer price index. In addition, governments provide a wide variety of programs and public services that are, to a substantial degree, paid for by the consuming public through its taxes.

CAC holds that the standard of living depends fundamentally on the maintenance of a fair and just system of taxation. We have long advocated meaningful reform of Canada's tax system and have called for, among other things, administration and simplification.

CAC national's 1984 brief to the Progressive Conservative task force on the administration of the Income Tax Act, for example, described the problems faced by taxpayers as the result of excessive complexity in the income tax system. To the extent that some complexity may be unavoidable, the brief argued for improved administration of the system and better information to taxpayers and concluded that, "It is incumbent on taxation officials to exercise their authority with restraint and good judgement."

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Much remains to be done with the simplification exercise. The 1987 white paper proposal to reduce the number of tax brackets is not exactly simplification, in our opinion.

We have also called for a fairer and more progressive tax system. We have argued for the elimination of many special preferences and shelters and taken the position that capital gains on unproductive sales of existing assets such as artwork and shares should be taxed in the same way as other income. Any quick turnover of real estate by speculators should also be examined for capital gains tax implications.

We have been and we remain very critical of the capital gains exemption announced in the May 1985 federal budget and partially corrected in the proposals of June 1987. Our view was expressed in our national economic issues committee reports and communicated in a January 1987 letter to the Minister of State (Finance), the Honourable Tom Hockin, in which we stated:

"In the United States, tax reform has meant treating income from capital gains the same way as all other income. In Canada the opposite has been achieved through exemptions, with the revenue loss recovered through sharply higher sales and excise taxes. Reforms so far include tax exemptions for cottages, foreign assets and paintings, twisting consumption toward those types of items (for those with enough income to respond to the new incentive system). On the whole, consumers have been the big losers under reform because tax-free capital gains have been financed by consumption taxes."

In the 1987 proposals, significant progress was made towards the equity objective of treating a dollar as a dollar. We applaud the reduction of the lifetime tax exemption on capital gains from $500,000 to $100,000 of capital gains, as well as the fairer proportion——75 per cent in 1990——of taxable income from capital gains. We urge the federal government to go all the way

and completely eliminate this tax preference. With one stroke, this will make significant improvements on goals of fairness and simplicity.

CAC has supported the initiatives in the May 1985 and February 1986 federal budgets to eliminate various corporate tax shelters, loopholes and avoidance schemes, and we have called for many more such initiatives. We have been particularly critical of provisions that encourage paper entrepreneurship instead of encouraging real productive activity.

For more than a decade, CAC has strongly advocated the reform of the existing manufacturers sales tax. In submissions to the Minister of Finance in 1976 and 1982, CAC argued that the federal government should negotiate with the provincial governments in order to move the federal sales tax to the retail level.

A retail-level tax, CAC noted, would have a number of advantages over the MST or sales tax levied at the wholesale level. It would be visible to consumers, and CAC holds visibility to be of absolute and fundamental importance. It would be neutral in its impact on the prices of like commodities. It would eliminate the use of notional or hypothetical values in assessing tax payable on various goods. It would eliminate distortions in the distribution chain that arise when the tax is levied at the manufacturing or wholesale levels—for example, location decisions based on tax considerations rather than market efficiencies. Most important for consumers, it would eliminate tax pyramiding through the production chain.

The stage 2 tax reforms introduced in the 1987 white paper have been put on hold for the moment because of the federal election call. The paper proposed three options to replace the manufacturers sales tax:

First, the federal goods and tax service, the GST. This is also known as the business transfer tax. The GST would apply to all goods and services at a uniform rate. This would be accompanied by refundable sales tax credits for low- and middle-income earners. The GST would work parallel to provincial retail sales tax systems.

Second, the value added tax, VAT. This would be a broad-based tax, but the system would be designed to permit exemptions. The value of the sales tax credits would depend on the extent of the tax base. It would be a system similar to those in Europe.

Third, the national sales tax. This system would combine the federal and provincial taxes into one national tax on a commonly agreed-upon list of goods and services. The federal government component would be uniform across the country, while each province would set its portion of the rate independently. There would be federal sales tax credits for low-income consumers. Exemptions would be permitted under this system.

Press reports indicate to us that, of the three options discussed, the winner appears to be the national sales tax. Finance officials continue to work on the details of the new tax despite the election. Whatever system is chosen, the new tax would apply to every step of production and to a range of goods and services not previously taxed.

Originally, food and pharmaceuticals would have been taxable under this plan but have been dropped from the list for the moment. CAC, in both our Ontario and national offices, has been hearing from consumers that they are very opposed to a tax on food.

CAC is concerned about the regressive nature of a sales tax. The white paper signals the government's intention to continue to rely on consumption taxes. This burdens the low-income consumers the most, because it erodes a larger portion of their disposable income.

CAC is worried that the sales tax credits that accompany the new tax will not be large enough, nor delivered in time, to compensate for higher prices. We also want to be assured that the credits will be adjusted to compensate for increased rates, additional taxes and inflation.

We do not like the fact that the MST is passed on to consumers by burying it in the price of goods. Any new tax must be made visible to consumers through collection at the retail level. Currently, staff in our national office together with volunteers are undertaking a project to develop economic criteria to judge the proposals that may be made. March 31, 1989, is the date targeted for completion of this project.

CAC has been critical of the movement of the federal sales tax to the wholesale level on selected product in lieu of genuine reform, especially after the government accepted the recommendation of the Goodman committee in May 1983 not to institute a change in the wholesale tax. We objected when then Minister of Finance Marc Lalonde shifted the federal sales tax on automobiles to the wholesale level in his February 1984 budget and again when Finance minister Michael Wilson announced in February 1987 that the federal sales tax on a number of goods would be levied at the wholesale level.

CAC does not believe that the rates used as an example in the white paper come anywhere near to true revenue neutrality. The rate of 10.5 per cent on a base that excludes food brings in far more revenue than is justified. We strongly believe that neutrality must be related to the tax take prior to recent adjustments in the MST which greatly increased the revenue from this source.

To quote Mr. Goodman, chairman of the Federal Sales Tax Review Committee, "There can be no dispute that only a sales tax imposed at the consumer level can provide a reasonable degree of uniformity in the tax burdens imposed on different kinds of purchases, whereas the present manufacturers tax or a wholesale tax results in entirely different tax burdens on different purchases."

Our concern about changing the MST into a visible retail sales tax is that the political process will produce a final result that is by no means revenue neutral. Those who attempt to influence decision-makers may be able to retain their tax preferences while consumers in general will continue to lose.

In the last three years, CAC has been particularly critical of the repeated MST rate increases and steady incremental broadening of the base in the absence of federal sales tax reform. In recent years, we have also taken the position that sales tax reform should not be isolated from comprehensive reform. For example, in mid-1986 CAC made clear its opposition to the introduction of any variant of the VAT under the guise of sales tax reform and in isolation from comprehensive tax reform.

The very first step in any reform that is to address fairness must be a commitment to restore full indexing for deductions and/or credits. Currently, there is no protection against the first three percentage points of inflation. When deductions and credits are underadjusted, as they are now, individuals pay too much tax. Any government accustomed to this growing source of unearned

revenue sees no need to exercise spending discipline. It is absolutely essential that truly fair reform begin with full indexation to allow for protection against inflation.

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In conclusion, the Consumers' Association of Canada agrees that the Canadian tax system is in need of substantial reform. Meaningful reform will result in a fairer and simpler tax system. CAC also agrees that tax reform should be comprehensive in order to strike a better balance between the sales, corporate and personal income taxes.

The stage 1 tax reform in the white paper and subsequently legislated did not convince CAC that the proposals constituted meaningful reform. While CAC has been supportive of such changes as the closing of loopholes and eliminating tax preferences, it is unrealistic to talk about lower personal income taxes and changes in corporate tax measures without reference to the consumption tax or taxes that will offset the government revenue foregone.

Further, a fair system would have full indexation for deductions and credits to protect against inflation.

CAC hopes this committee will give consideration to our submission and use its influence so that Canadians can be assured of a fair and just system of taxation.

Mr. Chairman: Thank you very much. We intend to do just that.

Mr. Morin-Strom: Thank you very much, Mrs. Smyth. It is nice to see you again.

The tax reform from the federal level we have seen as a two-phased process. The first phase provided overall a relatively small reduction in overall income taxes. Now it appears that we are going to get a massive tax increase in terms of the sales tax under phase 2 with speculation that it will be potentially 17, 16 or 19 per cent national sales tax. We have seen various figures thrown around, including the Treasurer's (Mr. R. F. Nixon) own estimate that it is going to take an additional $14 billion in revenues for the federal government.

Has the CAC been able to do any assessment in terms of what this proposal under phase 2 is likely to cost consumers? Have you been able to substantiate or develop any figures yourself?

Mrs. Smyth: Not yet. Our national economic policy chairman has been quoted in the press recently as saying $10 billion. That is the project I spoke about that our national staff of volunteers is working on now, trying to get a handle on exactly what it will cost. We do not have the results of that yet.

Mr. Morin-Strom: What is your feeling in terms of the appropriateness of shifting the tax burden from income taxes to sales taxes? Do you agree that that is a worthwhile goal of the federal government?

Mrs. Smyth: Our association has always taken the position that it is better to tax on the income tax base, because this spreads it more to those who can afford it. I was just thinking yesterday about the older citizens who are living on after-tax savings on which they paid this previous higher income

tax rate. Now they are going to have to buy their goods with this new sales tax applied to them, so they are sort of in double jeopardy. I would hope there would be some sort of credit or some consideration given to those people.

Mr. Delaney: To answer the specific question you raised about whether we see a need for reform, indeed, I made a speech here a little while ago to the society of management consultants, and one of the things I pointed out is the problem we are facing with demographics in Canada. The long-term implication that an ageing population and a lower birth rate will place an impossible burden on future generations of working taxpayers is a serious concern.

The problem is that we have nine people working for every one retired right now. By the year 2025 or 2030, that number of working is going to reduce to four. Of course, you are faced with the question: Will those four be able to generate the wealth and pay the taxes necessary to support each person who is retired to the extent that they are right now? The answer clearly is that it is not very likely. So we have to have major reform.

Of course, we recognize the strategy of the Department of Finance, which essentially is to reduce income tax for this relatively shrinking workforce and create a consumption tax on the growing number of people who will not be productively involved in generating income tax and paying taxes at the federal level. It seems that when you step back from the problems overall of financing the services the federal and provincial governments provide, we do not have much of an alternative. Clearly, we cannot rely on personal income tax in the future and we have to have a lead time, presumably to move in this new system.

The problem we have is the manner in which it takes place and the extent to which we consider it to be fair. The one thing about a consumption tax that concerns me is that historically Canadians have always paid taxes on the basis of their ability to pay. Those who earn high income pay more tax. They complain, but for the most part we have always accepted this principle because we recognize that those at the lower end of the socioeconomic ladder, many of whom do not pay any taxes whatsoever—lower-income earners would in our view have enormous difficulty meeting the demands on their very limited income streams to meet the increased costs they would incur for what are essentially the basic necessities of life.

It is these kinds of concerns that we have. We look at the overall system. We look at the fact that, for example, we had tax reform introduced at the federal level in 1988, as most of you are aware. We are going to have those tax rates, those levels, indexed to the consumer price index, no doubt. I have not been able to get confirmation of this, but from what I can gather to date we will not get indexing of personal exemptions or tax credits, which in effect is a growing revenue source for the federal treasury. It is these kinds of issues that give us concern.

Clearly, in my view this consumption tax, in the next three or four years, will without doubt be the most important issue on the political agenda of all levels of government. It will not be the free trade issue. It will not be Meech Lake. It will be this consumption tax. I feel that the sooner committees like yours address the problems that are going to face consumers in this regard, the better we will all be as a consequence.

Mr. Morin-Strom: Thank you for that extensive answer. The real concerns in terms of tax redistribution, though, I do not think are being fully addressed here. You were talking about the burden on income earners and

the increasing burden they are going to have in supporting the number of retired persons there will be as we move into the 21st century. You seem to be suggesting that the burden on income taxes should be taken and put instead on to consumption, and put the taxes right on those pensioners themselves. Instead of, let's say, deindexing their pensions and taking away the money from their pensions, you are going to take it away from the pensioners by giving them a 17 or 19 per cent sales tax.

I do not see how that kind of cut on senior citizens is going to be acceptable in Ontario. If you want to shift some burden, why do you not propose instead that we look at putting it back on to the corporate sector? Back in the 1950s and early 1960s, corporate taxes were generating very close to the same amount as personal income taxes were, and today we have a situation where personal income taxes are providing about three times as much revenue as corporate taxes.

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Mr. Delaney: Correct. I do not have any trouble with what you just said. In fact, at the very outset what I was giving—perhaps it was a little out of context—was an overview of the problems facing any government in the future when faced with the demographics we have. We have to be realistic about this. It is no good putting your head in the sand and saying we can just continue with the system as it is at present.

The question is, is the new system of generating revenues for governments going to be fair? We talk about the retirement income system. We have major reform in that area. We talk about the elderly. What we are seeing is the privatization, essentially, of the retirement income system to offset the problems you are addressing. Maybe you misunderstood the point I was making with respect to recognizing the overall problem. It has to be addressed.

Now, as far as your point about the corporations getting off pretty lightly is concerned, there is absolutely no doubt about this. It has been in every submission we have made to any committee of the House, federally, and indeed in the Senate I recall a committee raising this issue. The question is essentially, where are we going to go with this? From a provincial standpoint, is it fair and reasonable that the provincial taxes as they apply to the manufacturers' sales tax right now are a tax on top of that tax?

None of these things have been decided yet. They are still up in the air and until we get something concrete from the federal government in terms of what it proposes to do, it is pretty difficult.

Mr. Morin-Strom: Can I throw in one more demographics factor since you have specifically brought up demographics. I would suggest that some people, myself in particular, would not be nearly as pessimistic as you are in terms of where we are going to be in the 21st century in terms of wealth generation in our economy and our ability to have the wherewithal to generate income, revenues for governments to be able to pay for an ageing population.

There are a couple of demographic factors that are working to counteract the concerns you have in terms of the growing ageing population, one of which is a lower birth rate resulting in a lower support necessary for children and students. In other words, that portion of the population which has not yet entered the workforce will be a smaller one. While the ageing, the over 65, may be a larger percentage, the under 18 will be a smaller percentage.

Another even more significant factor than that, though, is the labour participation rate. There has been a steady increase in the labour participation rate in Canada for at least 20 years, particularly in terms of women going into the workforce. There is no indication that is slowing down at all, and in fact in other western democracies it is well beyond where it is in Canada today. So the labour participation rate, I would suggest, among those who are 18 to 65, is very likely to be much higher by the 21st century than it is today.

I would say there is a third factor. I believe that in our society, particularly with the better health programs we have and the ability of older workers to stay in the workforce, it would appear that the pressures may well be that workers will be given more rights to be able to voluntarily stay in the workforce beyond age 65.

I would suggest that by the 21st century we will see a significant labour participation rate of workers over 65 who voluntarily want to stay in the workforce for several additional years, and perhaps less early retirement as our health improves and that is reflected in people having the physical abilities and potentially the desire to stay in longer.

Mr. Delaney: Perhaps I am taking it down a trail here that we ought not to have been on in the first place, but let me make one point with respect to that. You talk about labour participation. I assume you are referring to the increase of females in the workforce. Let me say that the passage of time is going to affect males and females equally. The reality is that when you look at statistics today, females appear to retire a hell of a lot earlier than males at the present moment. Perhaps we ought to get this out of the way, but it seems to me that to lose sight of the demographic component in this whole issue is very shortsighted.

Mrs. Smyth: I would just like to add one thing to Mr. Morin-Strom's question about the tax on corporations. Mr. Wilson tells us that despite lowering taxes, he is going to broaden the base. We are not sure that is going to happen or that it is going to be enough to take up the slack from the slightly lower income tax. That is why we have concentrated most of our efforts on considering the sales tax reform. We think probably that is where it is going to come from.

Mr. Chairman: I have a brief supplementary to Mr. Morin-Strom's very first question when he mentioned some of the quotes with regard to windfall that we have been hearing recently.

You mentioned in your brief that you expect to be able to have a thorough assessment of the proposal, whichever one it is that comes, by March 31, 1989. The pressures we are feeling and sensing around here is that if there is a federal Parliament returned after November 21 that is disposed to phase 2 of tax reform, in whatever sense it comes out, it is going to happen very quickly. Are you at all geared up to respond more quickly than March 31, 1989?

Mrs. Smyth: Certainly, we could respond. What they are developing in Ottawa are criteria for judging the proposals. I am not exactly sure how far down the line they are with that, but we certainly would respond immediately.

Mr. Chairman: And perhaps noisily.

Mrs. Smyth: No doubt.

Mr. Delaney: Let's face it, we are in the middle of an election right now, and if the promises that have been made are to be met, the revenue has to come from some place. We have seen a reduction in marginal tax rates now. In Ontario, the combined federal-provincial tax rates at the highest level have been reduced from about 53 per cent down to 44 per cent, approximately. Now, that is a substantial benefit, particularly to the higher-income earners.

This is the problem we have all along. While the older system was complicated, it was more progressive. This flat tax idea that has been bandied about—we are relatively close to it with three levels right now—seems to me a little short on fairness in terms of how it affects individuals.

There are other aspects to this that I hope we can get into. For example, will the value added tax be applied to exports? If the consumption tax is not, what it means essentially is that we will be funding a foreign aid program the likes of which we have never seen, particularly with respect to the United States. Canadian taxpayers will be subsidizing exports. These are the kinds of issues that have to be addressed and brought to the attention of Canadians, it seems to me.

1040

Mr. Chairman: Most European value added taxes do not apply to exports, do they?

Mr. Delaney: Again, about most of the European taxes, look at the history of them. They were introduced as a luxury tax. In the early 1970s, you may recall that colour televisions were luxuries at that time. Automobiles above a certain price were nominal at the outset. We have seen an expansion of the number and level of goods. On top of that, we have had increases in the rate of the tax. As a consequence, it has become the greatest revenue source for most of the jurisdictions it has been introduced in.

Let me say that I have less trouble with that than I would with the kind of thing that is contemplated here in terms of fairness. If we are going to tax the basic necessities of life for the elderly, those on fixed incomes, for the poor, is that fair? Is that reasonable, looking at our historical attitude to dealing with this business of fairness in tax gathering?

Mr. Haggerty: If I can have the president and the members look at page 3 of your brief this morning, it said, "We"—I imagine that is your association—"have been, and we remain very critical of the capital gains exemption announced in the May 1985 federal budget, and partially corrected in the proposals of June 1987." I can only assume you are not too happy with that particular area of taxation reform.

You go on to say, and I guess it is your organization that is making this quote: "In the US, tax reform has meant treating income from capital gains the same way as all other income. In Canada the opposite has been achieved through exemptions, with the revenue loss recovered through sharply higher sales tax and excise taxes. Reforms so far include tax exemptions for cottages, foreign assets and paintings...." You go on to say that the consumer, with this new multisales tax proposed by Mr. Wilson, the the

Minister of Finance, will be picking up the whole tab, you might say, in tax reform throughout Canada.

I am concerned about this because we had a witness appear before the committee last week concerning the purchasing of a new home, for example, and the additional tax that will be applied in this particular area. I believe I had indicated that the average cost of a home in Toronto will go up about $12,000 for that purchase. For an unknown reason, the government has applied a capital gains tax in this particular area.

We have seen recently, just in today's paper, that the interest rate for mortgages has increased considerably in the last couple of weeks. We could see, if I can look at that, that it could well disqualify thousands of prospective home buyers in Ontario and throughout Canada, as the interest rates seem to go higher and higher. Of course, the argument is that the reason the interest rates go up is because of the lower Canadian dollar and we want more investment here in Canada.

Mr. Chairman: And the question is?

Mr. Haggerty: The question is, when you talk about capital gains tax, have you done a thorough study in this particular area to find out who the beneficiaries are of the capital gains? Is it in the housing market, the developers? Is it the banking institutions here in Canada?

Mr. Delaney: Clearly, it is not--

Mr. Haggerty: Is it for the wealthy people?

Mr. Delaney: You talk about capital gains and the problems of housing in Toronto. I submit that if you drive up or down Mount Pleasant Road or Bayview Avenue, you will see at least eight or ten houses, between all the election signs, that are for rent. I submit that is quite significant when we consider that it is estimated that fully 60 per cent of the condominium units down at Harbourfront have been bought on speculation by people who are, in effect, speculating. Indeed, those who rent out have the ability, under this present system, to write off the taxes. If there is a shortfall in the cash flow from rental income to meet the carrying charges, they can write that off, and this is tax-free capital gain. Some of these deals are flipped before possession takes place.

The capital gains tax at $500,000 was a scandal, because in effect it is requiring low- and middle-income earners to pay taxes to compensate for these losses in revenue. Remember what we said at the very outset: we are concerned about fairness in the tax system, and this is why part of your question is tied in with the whole problem of reform, which we recognize has to take place.

I suppose the bottom line is that, as far as the capital gains tax is concerned, clearly there are very few middle-income and low-income earners who will ever qualify for the tax-free capital gains tax of $100,000. We are looking at the top 20 per cent, I would suggest. The question is, on top of everything else, is it fair that they should have even this $100,000 tax break? We do not think so.

Mr. Haggerty: The other point is, there is a good return on their investments in this particular area, but under the proposed federal sales tax there will be additional tax put on to a home. I indicated that in Toronto $212,000 --

Mr. Delaney Here I think the provincial government might be able to do something in the context of this, if we do get it on homes. As it affects speculators, surely a short-term capital gains tax that would tax properties that are flipped before possession is taken would, in my view, make a major contribution to dampening the effects of inflation on property values in Metropolitan Toronto.

I do not think we should overlook the fact that, if you travel out to eastern or western Canada, there is a lot of resentment against Toronto and Ontario.

Mrs. Smyth: You do not have to go that far.

Mr. Delaney: You do not have to go that far, indeed.

Mrs. Smyth: Try Sault Ste. Marie.

Mr. Delaney: About what is happening in this metropolis, like I say, I think the government ought to be more sensitive to this issue.

Mr. Chairman: You are suggesting a capital gains tax that would address itself solely to that piece of property; it has nothing to do with the income tax of the investor or the income of the investor in total?

Mr. Delaney: You just think about it, if we have a short-term capital gains tax involving residential property in the city of Toronto. I do not know if the municipality is going to impose it, but it would seem to me that it would jolly soon create a hell of a lot of vacancies in terms of the number of units that are sitting waiting to be completed right now down at Harbourfront and various other places that have been purchased on spec.

Mr. Chairman: You are suggesting we would include the residences people are living in?

Mr. Delaney: Not owner-occupied; I am not talking about the owner-occupied residences.

Mr. Chairman: Not owner-occupied?

Mr. Delaney: No. If you take possession, we certainly do not subscribe to the taxing of capital gains on owner-occupied homes. If we did that, we would have to make interest tax-deductible, like they do in the United States. Of course, that would open up an enormous can of worms.

Mr. Haggerty: That is probably the point I was going to make. Here we are applying additional sales tax on the first-time buyer of a new home. He pays the shot, but you can have a developer who can be flipping this property, making a good return on his money investment and pay nothing, and the poor soul who is buying that home, or even apartment or a condominium, is carrying the shot.

Mr. Delaney: I agree entirely.

Mr. Chairman: Can you put this tax on regardless of the length of time the speculator held the property? We have heard a lot about possibly putting on a flip tax.

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Mr. Delaney: Not having done an analysis—I mean we are kind of getting off the topic in a sense. But it seems to me that is pretty sensible. At the very outset, if we had a provincial law that said single residential dwellings that were purchased and flipped, particularly new dwellings before possession, bang, that 100 per cent capital gains tax would apply; even a surcharge of some kind on the gains that had been made. I tell you, we would not have the number of houses that are up for rent. Everybody complains about the low vacancy rate in Toronto. Certainly when all these condominiums come on stream and if all these empty houses that are lying around are occupied, we will not have nearly so bad a position in this regard as we do right now.

Mr. Mackenzie: I just have a brief comment. You have hit two points that are certainly dear to our hearts. The profiteering in terms of the flipping of property is something we have been raising almost daily in this Legislature. It seems to me that 100 per cent capital gains under the conditions you have set out—we are not talking about an owner-occupied home—just makes absolute sense and probably would do more to dampen the inflationary housing costs than anything else that could be done.

The other thing that I wonder about is the figure you gave. I am just wondering: did you pull it out of the air or do you have anything to back it up, that as many as 60 per cent of the condominiums are rented or purchased on spec down on the waterfront?

Mr. Delaney: Well, no.

Mr. Mackenzie: That is rather startling.

Mr. Delaney: I have no statistics to back it up at all, but let me say this: I attended the very first day's opening of a condominium, one of these rah-rah sales outlets where they sound horns and ring bells when they make another sale. But on the very first day, over half the units had already been sold, before the units were available and open to the public. That is my point. I submit that if you think about it, how could they possibly have purchasers? Properties that are not built, they have half the units sold before they are open to the public.

Mr. Mackenzie: I had heard some relatively high figures but nowhere near the 60 per cent. If there were any fact to it, it would make such opposition to such a tax almost impossible. I suspect it may not be quite 60 per cent but probably anything over 10 or 15 or 20 per cent would probably make the same case in terms of results.

Mr. Delaney: Again, it is my personal experience I am sharing with you, that fully half the units on the very first day had already been sold. It was a very preferred area, let me say.

Mr. Mackenzie: That is understood. The other comment you made concerned the tax on exports and I think you are dead right on that. I suspect that we are not likely to tax them, that what is going to happen is that is going to be part of the argument for our ability to maintain our exports. In effect, what we are doing then is exporting a heck of a lot of the potential wealth out of the country.

The point I wanted to ask you about was on page 7 of your brief. It is just a clarification that I wanted; I want to be sure of your position. I think really you clarified it in your conclusions—that is not what bothered me just a bit—but when you said, "Consumers' Association of Canada strongly

believes"—near the bottom of the page—"that neutrality must be related to the tax-take prior to recent adjustments in the manufacturers' sales tax which greatly increased the revenue from this source." It is in the context of the whole argument on the national sales tax. I take it that that does not say that you do not think there is a real problem with fairness even as the tax exists at present.

Mr. Delaney: Well, there certainly is not.

Mr. Mackenzie: That is right. When you are talking about neutrality, you do not want to end up with the new tax just exactly where we are now. As I say, I thought you clarified it in your conclusion, but I just wanted to be sure. The word neutrality bothers me a bit because I think we will have a less fair tax still but we certainly do not have a fair one now.

Mrs. Smyth: I think we were also trying to say that we did not want to end up with a big revenue grab by any government.

Mr. Delaney: There is another point in that context that perhaps ought to be stressed. It concerns the historical fact that—we are talking about the manufacturing sales tax—the manufacturing heartland of Canada is right here in Ontario and probably the province of Quebec. So we are now sitting with a situation where we have a 12 per cent manufacturers' sales tax, and if we are going to eliminate that and introduce a consumption tax of some kind or a value added tax of the order of the eight to nine or 10 per cent we are talking about right now, it seems to me that the beneficiaries, to a very significant extent, are going to be manufacturers directly. Of course, in all of these issues where there are going to be substantial reductions accruing to corporations, we are concerned about whether or not those savings in taxes are going to be passed on to consumers.

Mr. Mackenzie: If you think they all will, you believe in the tooth fairy.

Mr. Delaney: Well, again I am inclined to be very sceptical about that. If I were a resident in one of the provinces that are resource-based or perhaps farming or what have you, I am going to be concerned about this to the extent that we have a broadly based consumption tax to pick up this kind of shortfall. When you consider the manufacturers' sales tax raises in excess of $10 billion by itself, if we are looking at an eight per cent consumption tax, we are looking at eight twelfths of $10 billion to be shared amongst the manufacturers based primarily in Ontario and Quebec.

Mr. Haggerty: I am concerned about this. I am going to state an example. I had a man come in from Holland as a landed immigrant in the 1950s and purchase some farm land. He left relatives farming it and went back to Holland—I guess he had other investments there—and spent about seven or eight years there and then he came back again in the 1980s and was buying farm land then. He has got some 1,200 acres in the township of Wainfleet and is farming it. Then we have what we call the land transfer tax in the province of Ontario. He is saddled with a cost of 20 per cent on that and right now, the Ministry of Revenue is demanding $500,000 because it feels it is a capital gains in this particular area to him. He is farming. He has got a heavy investment in machinery, everything. You will see no development in that area at all, but they have got him nailed now for $500,000.

Mr. Chairman: What kind of capital gains is he talking about?

Mr. Haggerty: It is a land transfer tax and it is a capital gains to government, you might say. But that is what they have saddled him with. Yet we can find out through our discussions here this morning that you have other ones out there flipping property over, making well above the fair return for their investment, paying no taxes. I think the committee should take a good look at this.

Mr. Chairman: Any other questions?

Mr. Velshi: Yes, a question, Mr. Delaney. When you are talking about capital gains tax, we have just heard from Mr. Haggerty that there is a capital gains tax on land transfer. As far as I am concerned there is also one on property. Perhaps the lawyer or an accountant here will tell us that, but there is a certain tax. I wonder if the consumers' association is looking to that, because up to December 31, 1987, half the capital gains was taxed as income to a company or an individual. After December 31, 1987, starting this year, 75 per cent of it is taxable, so I am not too sure we are on the right track saying land is not taxed at all. It is taxed.

Mr. Delaney: But the land transfer tax is something entirely different. We are not talking about capital gains there.

Mr. Ferraro: The land transfer tax is not a capital gains tax.

Mr. Delaney: Well, that is exactly my point.

Mr. Chairman: I think Mr. Velshi is talking about a capital gains tax under the Income Tax Act, are you not?

Mr. Velshi: Yes. Any corporation buying a property and selling it, it is taxed. The capital gains today, if you flip the property and make the property, that is capital gains tax.

Mr. Delaney: But this has got $500,000 capital gains tax free.

Mr. Velshi: It is $100,000 now. It has gone from $500,000 to $100,000.

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Mr. Chairman: That is again factored into your total income tax. If you have an income, then you have a capital gain's tax that you pay, but what I think we are hearing here is that, regardless of the income or non-income of the taxpayer, if he makes a speculative gain on real estate, there should be a separate provincial tax. I think that what you are proposing would be easier for the province to move into than what has occurred at the income tax level, because we are into a tax collection agreement with the federal government. I think the Treasurer (Mr. R. F. Nixon) a couple of years ago suggested he wanted more activity in capital gains but was not able to do so in conjunction with our tax collection agreement with the federal government. We were locked in.

Mr. Velshi: On that again, has your association considered that if a tax is put on capital gains, or a speculation tax, perhaps the income from revenue generated from that may not be that high because the market will cool?

Based on that, the consumer will still be saddled with certain taxes, because the speculation tax will not fill that gap, I think all it will do is

cool the market. I have no problem with cooling the market, I am just saying that the tax revenue you are thinking of as available will not be available to the government. Am I right in saying that?

Mr. Delaney: It depends on what degree we are talking about. Clearly, what is going on right now is a scandal and ought to be stopped. The question is, does the provincial government have the intestinal fortitude to go forward and say, "Look, this is just too much; we can't have property values in Metropolitan Toronto escalating at the levels they are at right now, where people are flipping properties left, right and centre"?

The federal government has to look at the whole business—as indeed, perhaps, our friends in the US—we are seeing takeovers, leverage buyouts, now of a magnitude we have not seen in history. These are affected, because interest and carrying charges on the borrowed funds to execute these are tax deductible. These are major issues that are facing governments today.

Mr. Velshi: I am not too sure if your mandate is to protect the consumer or to look at scandalous behaviour of people. I think if it is a scandalous thing that is happening, that is fine, but I am not too sure how it is helping the consumer in terms of the federal tax base that Mr. Wilson is talking about.

Mr. Delaney: To the extent that taxes are not being paid as a consequence of this speculation, those taxes are being picked up by individual consumers. Okay? The shortfall is being picked up, and what I am saying is that the burden of tax on individuals—those on fixed incomes, the poor, the elderly—would be less if governments had a sense of what is fair and reasonable in terms of its treatment of people who are exploiting what is going on in an environment like we have here.

Mr. Velshi: Finally, everybody seems to be dumping on Toronto. Did you do the same thing when property prices were rocketing in Calgary? Did you also complain about that? I find that when the west talks about fat cat Ontario, it upsets us, and yet Ontarians are doing the same thing to Toronto. I am not too sure whether that is fair either. If it is upsetting you that fat cat Ontario is reaping the benefits of this country, you are doing the same thing to Toronto.

Mr. Delaney: No, I do not think that is fair. In fact, when you look at the actions our provincial Treasurer took with respect to his provincial sales tax, and indeed the personal income tax increases he incurred, certainly personally, not speaking on behalf of the Consumers' Association of Canada, I recognize where he is coming from. As a cash cow for revenues, Ontario is it, is it not? Everybody recognizes that.

We are kind of getting off the point here a little bit, but I am saying it really boils down to a question of fairness and all these things. It is like the export tax. It is related. If they are not going to be paying a consumption tax on exports, then that means that everybody else is paying and subsidizing exports to the United States. Is that reasonable? Is that fair? I do not think so.

Mr. McCague: The Treasurer has been fairly noncommittal on the subject of a national sales tax. We had before us last week people from the Ministry of Revenue who are meeting with like people in all of the provinces and with the federal government to try to work out, I guess it is fair to say, a basis for a national sales tax.

In your comments today, you mentioned that you feel a national sales tax is going to be more difficult for people, especially seniors. Knowing what you know today—and I know you would be happier if you knew more about what the federal government was proposing—have you done any estimate of what that might mean to a couple on pension?

Mrs. Smyth: I think we were quoted in the press last week as saying that for the average Canadian it was going to mean a difference of $900 per year.

Mr. Delaney: To a household.

Mrs. Smyth: To a household.

Mr. McCague: I have not seen, for instance, a shopping list for two people of 65 years and more, but it would seem to me that if food and pharmaceuticals are exempt, that goes a long way to ameliorating the effect of a national sales tax.

Mrs. Smyth: But if the base is increased to include a sales tax on services, and seniors are reportedly spending much more on services than people in a different age group—

Mr. McCague: What would you classify as services, in your understanding of it at this point in time?

Mrs. Smyth: Anything else that you have purchased that is not goods.

Mr. Delaney: Including rent and drugs. Although again, it is interesting about that drug business. The CAC protested very vehemently, as some of you may recall, about Bill C-22, and this province is picking up the tab for that right now in terms of the extra moneys that are being picked up in this province as a consequence of Bill C-22. I suspect that is perhaps one of the reasons it has been excluded under this proposal. There are a couple of little points I would like to make in connection with this.

Remember, we had this tax reform. We had a change about two years ago wherein we got the continuation of indexing of tax rates, but the indexing of the deductions or the tax credits into this new system will not be in that, so that the take-home pay of a pensioner or any person on fixed income is going to be reduced as a consequence of that.

I am not suggesting it is going to be easy for any government to introduce this. This is a very complex issue, and to the extent that we are going to make representations, it is going to be on the basis of our insistence that we get fairness and that people pay on the basis of their ability to pay. Regrettably, we appear to be going in the opposite direction right now.

Mr. Mackenzie: Just on the matter raised by Mr. Velshi, the thrust of the CAC's argument, while I think there are additional revenues there—he may very well be correct, although just how much that would actually amount to for the province is difficult to say—but the thrust is certainly cooling the market and providing housing and the ability of people to purchase other services rather than having them driven out of the market because of the cost of housing. Would that not be the thrust of your argument more than as a revenue-producing measure?

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Mrs. Smyth: Right. I do not think we had any intentions of coming here today and saying that we thought this was the solution to—

Mr. Mackenzie: Ontario's revenues.

Mrs. Smyth: Right. It was just almost an aside to our main argument that we want a fairer system, and this is one aspect of that fairness. I am quite sure that it would not fill the coffers to pay for all government programs. It was to be one example of unfairness that exists today.

Mr. Mackenzie: In terms of seniors and the additional costs with the national sales tax, I do not know what your experience with your members is, but I know I have just gone through trying to assist my own mom and dad who are well into their eighties now and have finally had to move into an apartment. One of the things that was costing them was things dad used to do, whether it was cutting his grass, digging the garden or repairs around the house; because of his health now, he has to hire somebody for all of these services. I can see, knowing what they paid out in the last couple of years in their own home, that tax on those particular items would have been a fairly substantial increase in what he was paying out. I take it that services would cover a variety of things in terms of older people.

Mrs. Smyth: You bet. That is the experience of our association. Some municipalities provide some of those services for seniors—a little bit of snow shovelling, etc.—but most do not. The rates are going higher and higher and their incomes are not, and this would be extremely difficult for them.

Mr. Delaney: To add on to your question, there have been promises by the Minister of Finance, as you know, of tax rebates in some way. But let me say this: If you are in the lineup for groceries and you are paying more for them, or for bus tokens and you are paying more for them, where are you going to get the revenue? What is the mechanism going to be to put money in the hands of the individuals to be able to take advantage of goods and services? That is the problem we have. The tax policy models which appear to have been touted by Finance leave me cold. These are concerns that have to be addressed.

Mr. Chairman: Thank you very much. It has been a very valuable discussion, and you have flagged a number of concerns I think the committee should be addressing sooner rather than later. I appreciate very much your coming and being with us today.

Mr. Delaney: Thank you very much, Mr. Cooke.

Mrs. Smyth: Thank you for hearing us, and we wish you well with your deliberations.

Mr. Chairman: Thank you.

Mr. Delaney: I might add that, as I am sure you know, this is a fairly hastily prepared submission by our staff. In fact, I had not even read the submission myself. It was put together from other presentations we had made in the past elsewhere, for your committee today.

Mr. Chairman: I appreciate that you had a short time to prepare it—

Mr. Delaney: Winging it, as they say.

Mr. Chairman: You did a very good job. It did not look like winging it at all.

Mrs. Smyth: It is called no notice at all.

Mr. Chairman: Next week, I understand we will be hearing from the Canadian Chamber of Commerce, so it may be preparing to rebut some of the comments you have made. I hope you will follow the input, and we will let you know any recommendations we make.

Mr. Delaney: Thank you very much indeed.

Mrs. Smyth: Thank you very much.

ORGANIZATION

Mr. Chairman: I have a number of matters we need to deal with, housekeeping matters, I suppose. First, some of you have been asking me about the September expense cheques. The latest word we had is that they were supposed to be available today. There was a delay in assessing them, and I apologize for that.

Also, the free trade reports: I understand the members of the committee who were members of the committee in September have all received 30 extra copies.

Mr. Haggerty: I have not received mine.

Mr. Chairman: You will shortly, then. That pretty well exhausts what we have. The chair has received a number of requests, perhaps because I am chairman, so if there are any of you who do not need your copies, we can certainly use them. We will have used up everything we had printed. You may recall that last week we decided not to print anything more, in anticipation that in a couple of weeks the demand would go down.

Ms. Hart: Since I am new on the committee, I did not get a number of copies. I could sure use a few.

Mr. Ferraro: I do not have mine yet either.

Clerk of the Committee: For the members who are out of the building, they are being delivered by messenger, so you will get them.

Mr. Chairman: Perhaps you could have your staff follow them up and get them, wherever they may be physically at this moment. We should be able to find a few for Ms. Hart and anyone else, especially since she is now a member of the committee.

Montreal: The people in the Trade Negotiations Office in Ottawa are, in fact, the only officials who are really invited to the Montreal conference on behalf of Canada. They have invited our Minister of Industry, Trade and Technology (Mr. Kwinter) to participate with them. We have a request in to receive an invitation. That is where that stands. There are all kinds of niceties involved. We are still working our way through those niceties.

Mr. Haggerty: We should (inaudible) European Community--

Mr. Chairman: We can go as part of their delegation, if you want, Mr. Haggerty.

Mr. Pelissero: On that note, I think we should give serious consideration, as I think we mentioned briefly before most of the members were in, to the fact that the ambassador to the General Agreement on Tariffs and Trade whom we visited at the end of September, John Weekes, has just been elected chairman of GATT. It would probably be nice to send him a congratulations letter and say that we put a good word in for him wherever we travelled. It is probably as a result of that that he got elected chairman.

Mr. Chairman: Are you suggesting that if the TNO is not happy to bring us along, maybe he would bring us on behalf of GATT? Well, why not? We will see what we can do in that area as well.

You have talked about and we have been talking about advertising with regard to prebudget consultation and tax reform. Mr. Decker has prepared and I have in front of me two sample advertisements, one of which includes the fact that there exists an economic outlook and fiscal review; the other does not. I suggest we use the one that does, even though it has not yet been published. Treasury has indicated we will have it this month.

The second issue which is a little touchy right now, I suppose, is that we talk about tax reform and prebudget consultation. I think it is valuable to have in the prebudget consultation those concerns that anybody would have about the effects of tax reform one way or another, obviously. They should be putting their minds to that as well as to our economic outlook, if they feel so disposed. Some might argue that by the time these advertisements are published, that may or may not be necessary. Do you have any comments on that?

Mr. Haggerty: If you are going to be advertising in some of the papers, I suggest that you use some of the ministry's press communications that go out. For example, the Ministry of Agriculture and Food's go to almost every member of the Ontario Federation of Agriculture. That is a good place to put it in, and it would not cost us a cent.

Mr. Chairman: That is a good idea.

Mr. Haggerty: Use those there because it goes out to special groups and then they are aware of it. If you advertise in the Globe and Mail or the Toronto Star, in rural Ontario not too many read those papers. They may take a look and they may buy it, but it may not be in that day.

Mr. Chairman: Mr. Decker will look into any kind of free advertising we can get into any government publications, particularly OMAF's.

Mr. Ferraro: I ask a question and beg the committee's indulgence at the fact that I was not here last Thursday. Could you tell me, for my benefit, what the committee has scheduled vis-à-vis the two agenda items as far as timing is concerned?

Mr. Chairman: The scheduling is such that we are preparing witnesses specifically on the issue of tax reform for the next two or three weeks, I guess, at the maximum. Then we may be in a position that we are prepared to say something on that issue. That is because the Treasurer indicated that he expects perhaps to have a lot of pressure for some final decisions late this fall on tax reform. The prebudget grey book, the economic outlook and fiscal review, is supposed to be released some time this month. When that occurs, we can move into prebudget hearings. I recall that he said we would have to have something to him before February 15 or he would not be considering it. I think the sooner the better.

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Mr. Ferraro: My concern, of course, is that, as the committee will know, last year we had essentially two weeks. As I understand it, we were inundated with requests to appear before the committee. I found the presentations very informative and helpful. I just hope we have learned from our past and allocated more appropriate time for the committee deliberations on the budget.

I understand the Treasurer's concern, but quite frankly--and I say this with great respect to the delegations--if the committee wants to proceed in this matter, that is fine, but they are all going to be qualified. We do not know the outcome of the federal election, and that has a direct bearing on how the second stage of tax reform goes. Again, with respect, if we are going to spend three weeks dealing with hypotheticals, which we may want to do as a committee, I think it is questionable when one considers, in my view, at least at this juncture, the more important aspect, and this is the prebudget submission.

Mr. Chairman: That argument then goes to confirming some advertisement and getting it in the papers immediately. The advertisement that we have prepared here talks about briefs being deposited with the clerk of the committee no later than Friday, December 16. Perhaps the committee may want that to be moved up to an earlier date.

Mr. McCague: I think the question you are asking is, do we invite submissions on tax reform as well as prebudget considerations? We could spend a lot of time arguing as to what the scenario might be on November 22, but it seems to me that this Treasurer in particular gave this committee the mandate of doing prebudget consultation as a yearly event. I am strongly in favour of not mixing up tax reform and prebudget considerations.

By the same token, I would not want to preclude anybody from mentioning prebudget consultation and tax reform in the same presentation, but I do not think we should be inviting or making it look as if half our mandate is tax reform at this particular point. I think it is going to take a long time, even if the same government stays, for it to get it in shape.

I predict to you, Mr. Chairman, that if the government changes, especially to one particular party that you might have an interest in, there really will not be any change, that this will proceed. If the other chap gets in, we will not need to talk about it for a while. I think we should not be advertising for tax reform discussion but keeping it on the mandate we were given about three years ago now.

Ms. Hart: This is a nuts and bolts question. I was not on the committee for last year's prebudget consultation. How do you work it in terms of scheduling? Do you schedule people for a half hour, an hour, or was it like this morning, that they go as long as they want?

Mr. Chairman: No, we were much more restrictive.

Mr. Ferraro: We never had enough time on at least half of the delegations, in my opinion. I stand to be corrected.

Mr. Chairman: They were much more restricted. This was leisurely in comparison.

Ms. Hart: I just wanted to ask that, because if we are restricted as to time and we have a great many groups that want to see us, I would suggest that we do have a set time.

Mr. Chairman: I think that is really a supplementary to what Mr. Ferraro is saying, that maybe we should be getting on with that as fast as we can, because we should be doing as much as we can. I remind the committee of my own concerns that we were the captives, a little bit, of the big lobbyists, the big interest groups last time and did not seem to have feelers out to the average taxpayer as much as we could have or should have. I do not know how we can do that. I do not really have an answer. I somehow suggested that if we did a little travelling, we might have a better feel for that.

Mr. Ferraro: I just want to add to that, if I may. I am sure every committee member knows that ministries of the government have been actively involved in preparing their submissions for the budget for, in some cases, well over a month now.

Mr. Mackenzie: I realize that the mandate given us, which the Treasurer wanted, was prebudget. If that is the route we are going, fine, I am not going to make any major objections. But I think we have to be careful that the mandate is broad enough that nobody is precluded from dealing with the issue of tax reform, because quite frankly, I do not know how you deal with prebudget submissions without taking a look at how you raise the taxes. That is the fairness of it. I find that is the key issue in people's minds when you get down to taxes.

It certainly has to be understood that that may very well be part of the presentation. You may not make your emphasis in any of the ads on tax reform per se, but if we do not clearly allow people who make presentations to us to touch on this subject, I think you are losing half the purpose of the hearings.

Mr. Chairman: Might I suggest that—— Yes, Mr. Morin-Strom? Go ahead.

Mr. Morin-Strom: Make your suggestion if you want.

Mr. Chairman: I am trying to find a consensus here. My suggestion was going to be that we move ahead as quickly as possible with the advertising, remove the term "tax reform" from the advertising and perhaps, if necessary, add something to the advertisement to make it clear to the presenters that revenues are of concern to the committee as well as expenditures. We include the paragraph to the effect that the grey book will be available, because by the time these are in the papers it likely will be. That is the consensus I think I am hearing.

Mr. Morin-Strom: I would like to reiterate some concerns I have in terms of the process we have gone through in the past. For the last couple of years, when we have tried to do this we have ended up hearing from a very restricted list of public interest groups, which have not given us a perspective of the broad concerns of the province as a whole.

I hope we do not get back into this trap of trying to decide whether it is more important to assist secondary school teachers, public health nurses, highways in northern Ontario or whatever. We get submissions on certain topics and we do not get submissions on other topics, and then we have to make judgements within individual ministries about, "Is this area a priority?" because we happen to hear from a group with a special interest in this area while we have not heard from other groups that obviously would have legitimate

concerns in terms of budgeting in that ministry as well.

I hope we do not get into this battle of the public interest groups we happen to hear from versus those we do not hear from, but rather have more of a broad-based focus on where the economy is going as a whole in the province and, in particular, our responsibility as the finance and economic affairs committee for looking at what we have to do to make the tax system fairer, to raise the revenues we need so the government can pursue things that are needed in a whole host of areas in terms of social services, health services and government services generally across the province.

Frankly, I am concerned that we are not going to be able to do a thorough job again this year, because we have constraints in terms of the time the Treasurer wants the submission, which I believe is some time in mid-February, is that right?

Mr. Chairman: Mid-February, he said.

Mr. Morin-Strom: Mid-February. We have the potential that we will not be adjourning before Christmas but will be in session potentially till very close to that date. We have a difficult time in being assured that we are going to have any full weeks of hearings at the end of a session, because we may be meeting all the way through January in regular sessions here, which means we have one meeting a week, or perhaps two meetings if we get another time slot. We are holding hearings on the tax reform, which are important ones when we get one session a week. I think we are already in a serious quandary, in terms of time constraints, to do this job adequately.

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Mr. Chairman: It could not have been better said.

Mr. Ferraro: I agree with you. I share many concerns expressed by Mr. Morin-Strom. The only thing I would like to add further--I apologize for being so talkative this morning--is that, assuming the committee is saying that perhaps we should spend a little more time on prebudget submissions--and I am hoping that is the case, from a personal standpoint--without relegating tax reform completely out of the picture, I share Mr. Mackenzie's view; it is to some degree integrated with budget process, obviously.

The concern I wanted to talk about was, as Mr. Morin-Strom indicated, that we get a very select group. I do not know what exactly the process is going to be. If, indeed, we have a list as a committee, as determined by the clerk and/or the subcommittee, whom we might consider as delegations, as well as when the responses come from the general public as to who would like to appear, I hope the subcommittee will determine the agenda vis-à-vis who would come.

I recall with the free trade presentations that there was some concern expressed by some of the members of the committee that, indeed, the selections were slanted in one particular direction. I am sure the committee wants to hear from all sides of the aspect. I guess I make that suggestion as far as process is concerned vis-à-vis who will come and how much time so that I hope the subcommittee of the committee will be a little more attentive to those concerns.

Mr. McCague: The point I was going to make is the one that Mr. Ferraro has just made. That is that I think in order to accomplish what each

of the parties would like to accomplish, it is important that the scheduling of witnesses before this committee on the prebudget consultation be done by the subcommittee. That, I think, would alleviate the problems that have been mentioned.

Mr. Chairman: All right. I think I am hearing, then, a consensus that we utilize an advertisement for prebudget consultation, take out the words "tax reform," publish it as quickly as possible and perhaps move back the date for presentations. Presenters, of course, will need some time to put their material together; otherwise, you will get simply the professionals who already have it prepared. Are there any ideas as to a good date for a deadline, bearing in mind what Mr. Morin-Strom said about the amount of time we have to sit?

Mr. Haggerty: Is there any travelling? It has been discussed privately that we might hear a little more from ordinary taxpayers if we were in Welland or Sault Ste. Marie than we are hearing here.

Mr. Chairman: Or Sudbury or someplace.

Mr. Haggerty: Or Sudbury.

Mr. Ferraro: Guelph has a lot of people.

Mr. Haggerty: Or Guelph, whatever. I do not want to go through all the cities. I have not heard a proposal particularly to do that. That would not be in the advertising. Maybe we can continue to think about that.

Mr. Ferraro: Depending on how much time we are going to have.

Mr. Haggerty: You may get different views from different people. If you keep it all in Toronto, you are going to get them all from down near Bay Street coming in here.

Mr. Chairman: It has been suggested that we can determine that once we see some response to the ads.

Mr. Ferraro: Could I suggest that the subcommittee deal with this?

Mr. Chairman: Okay, I think that makes good sense. I am suggesting that we put in an additional sentence somewhere that the clerk can find. I have just written out, "Hopefully presenters will be prepared to look at all aspects of the provincial budget, including revenue measures," so that we do not have people coming and saying, "Give more money to us," and then looking blankly at you when we say, "Where are we going to get it?"

Mr. Mackenzie: I would accept that as second best to tax reform.

Mr. Chairman: All right. You can figure out where to put that in.

One other thing: Do we need a motion on that, or are you all right?

Clerk of the Committee: That is fine.

Mr. Chairman: There is one other thing. I see here figures for committee advertising: Ontario dailies, $9,600; Ontario weeklies, $11,900; Ontario French weeklies, $1,500; Ontario ethnic press, $12,800. How far do you want to go?

Interjection: Does that include the Financial Post?

Mr. Chairman: Add about $1,000 to dailies if we include the Financial Post, which we should.

Mr. Haggerty: We are looking at quite a bit.

Clerk of the Committee: About $30,000.

Mr. Ferraro: I will reiterate what I said for the last three years: I think $30,000 is far too much of an expenditure. Quite frankly, I think we could get perhaps not as great a response as we have received by putting in all those particular papers that are being indicated, but if we were a little more selective, we could save the taxpayers some money vis-à-vis selected invitations, and some advertising and utilizing government periodicals, as suggested by Mr. Haggerty, and effect reasonable reaction to our ad. The countering argument which defeated my suggestion last year was, "You have to do a job and if you want to do it right, you have to spend $30,000 plus." I am not sure the net benefits gained offset the expenditures.

Mr. Chairman: Can I extrapolate from that a question mark beside the ethnic press?

Mr. Morin-Strom: Ontario dailies are fine.

Mr. Haggerty: The Minister of Culture and Communications (Ms. Oddie Munro) has a newspaper that goes out almost monthly, or twice monthly. You could use that. The minister responsible for francophone affairs (Mr. Grandmaître) has funding in that area too. He is sending out newsletters. I can check him out.

Mr. Chairman: I am hearing, I think, a consensus of at least Ontario dailies. That is about $10,000; a little more perhaps, because the Financial Post is a daily. That is about $10,600. The other $20,000 is weeklies and ethnic. Do we restrict it to dailies, French and English?

Mr. McCague: I suggest that we just do the dailies, because if you want to go beyond the dailies to the weeklies, then you are obliged to do it in all the ethnic press too. They are mostly weeklies. I think in the interests of economy, we had better settle for the dailies and not get into that.

The second point I want to raise is there seems to be some interest in travelling around the province a bit. I think that is fraught with a lot of problems because of House scheduling. For instance, we probably would not be able to be away. Where it is felt important that somebody should appear before us and he is not capable of funding a trip to Toronto himself, the committee does have the opportunity to pay for that transportation if it is deemed necessary. I think that is a more economical way for us in the long run.

After all, you are going to have to make decisions as to which groups you do hear. You are not going to be able to hear everybody who might wish to come if he knew it was a trip to Toronto. I think that is a much better way to go, given the fact we may be sitting. Given the economy of the whole measure, I would suggest that we go that way rather than entertain any ideas of travelling.

Mr. Chairman: I think you are making eminent good sense. I have

heard basically that we are restricting our budget. Mr. Velshi, we have discussed the budget for advertising for prebudget consultation, which would look to be about $30,000 if we include weeklies and the ethnic press. We can do it in all of the dailies, French and English, for about $10,600. The consensus seems to be just to do it in the daily press.

Mr. Ferraro: You may want to make a member's statement in the House.

Mr. Chairman: All right. We can do that, for what that is worth.

On the issue of oral presentation, at the moment, the advertisement says, "Requests for oral presentation of briefs should be directed to the clerk for consideration by the committee." It also talks about written submissions before whatever date we set. Would it be appropriate to hint in some way that we are prepared to look at travel costs? In the past, we have had very little response from outside of Toronto.

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Mr. Haggerty: On a selected basis.

Mr. Chairman: On a selected basis. Or is that fraught with danger even to put something like that in the paper?

Mr. Haggerty: No, no, do not put that. If a number of organizations want to appear before the committee and they may say "It is too expensive for us to come from Fort William or Red Lake or some place down here to Toronto," then the committee can take a look at it and say, "Well, we'll—"

Mr. Mackenzie: I would not do anything about it at all.

Mr. Haggerty: No.

Mr. Chairman: Perhaps what we should do is get some good written submissions from around the province and then make contact with the ones that we are interested in and at that point, if necessary, offer help.

Mr. Ferraro: I do not know, maybe I am really reaching for this one, but is it appropriate to list the members of the committee in the advertisement? I am not trying to be egotistical about this. From the standpoint that if there is somebody in Sault Ste. Marie or the Guelph area or the Niagara Falls area who wants to come to the committee, he would feel he could contact a member of the committee. It is fine to have your name and maybe that is the way it has got to be, but if they had a list of all the members—or you don't have to put their names in if you do not want to. I am not on a ego trip here. All I am trying to do is facilitate interaction between groups from the standpoint of interest.

Mr. Mackenzie: There are an awful lot of areas you would eliminate then. I would stay away from that one too.

Mr. Ferraro: Yes, I suppose so.

Mr. Chairman: The ad says collect calls will be accepted. Yes, there is an idea, to put something in the text to say we are specifically encouraging submissions from outside Toronto.

Mr. Ferraro: Or contact the local member's office.

Mr. Chairman: And just say "your local member" without saying who?

Mr. McCague: For further information.

Mr. Ferraro: Contact your local member's office. Then you might want to do a note to all members.

Mr. Chairman: Shall we do that? Okay.

Mr. Velshi: Just one thing: if there is no budget for it that is fine, but perhaps you could utilize the Ministry of Citizenship to distribute it and let the ethnic press report it in the form of an article rather than as a press release. But make sure it goes out.

Mr. Chairman: That is a good idea. It would likely be printed in a lot of them, would it not? And weeklies as well, if we can. Perhaps we should do a press release for the weeklies.

Mr. Pelissero: We should do a press release for the weeklies and the ethnic press and an ad for the dailies.

Mr. Chairman: We would have Mr. Decker prepare one for weeklies and contact the Ministry of Citizenship to work on something for the ethnic press. You were suggesting, Mr. Haggerty, that we contact the Ministry of Agriculture and Food.

Mr. Haggerty: And Industry, Trade and Technology as well.

Mr. Chairman: Okay. You have lots of work. Anything else on that issue? What about the date? How soon do you want them to have their written submissions to us?

Mr. Pelissero: I think you are unrealistic to think you are going to have anything before December 16. It is less than a month away.

Mr. Chairman: There is nothing to prevent us from starting before then, when we get stuff in. We will certainly have to start with our own Treasury officials and so on.

Mr. Morin-Strom: Why not in January?

Mr. Chairman: Putting it later?

Mr. Morin-Strom: If you say there is some difficulty in getting people to prepare things and we are trying to get a broader representation, maybe we should have a later date in terms of when we can receive submissions. That does not stop us from scheduling ones that do come in before that. We know that Treasury has a huge list of contacts and we have them from the past as well.

Mr. Chairman: In that two-week period at the end of December we are probably not going to do much with them anyway. We are going to have a two-week break, I understand.

Mr. Pelissero: That has not been ironed out.

Mr. Chairman: Oh, has it not?

Mr. Ferraro: We might say that oral presentations will start December 1, but written presentations will continue to be taken up until even January 15 or 20.

Mr. Chairman: Why do we not do that? Miss Hart?

Miss Hart: It is okay, the problem has been solved.

Mr. Pelissero: Depending on the number of requests—if you are going to put in the oral presentation, that may encourage more people to do that—are we going to give serious consideration to sitting two days a week? With two hours on a Thursday morning, say you go 20 minutes per oral presentation, that will give you three per hour, that is six per sitting. That may be enough. I do not know. You will have to see the kind of interest. Maybe we will reserve that until later.

Mr. Chairman: The government whip has informed me that he has proposed a change of scheduling so that we would sit two days a week, Tuesday and Wednesday, after routine proceedings, which of course would greatly enhance our sitting time. I do not think that has worked its way through with the other two parties yet. If the other parties are interested and wish to lobby for it—

Mr. McCague: The time—

Mr. Chairman: I know. There are other problems that the other parties have, and I am not being critical when I say that, but certainly I think the committees could well utilize that time, and it would be cheaper for the people, because it is cheaper to run these committees while the House is sitting. Any other comments?

Mr. Ferraro: I beg the committee's indulgence, because I was not here last week. I have had the privilege of being vice-chairman of this committee since its inception three years ago. As the committee may or may not know, I have some other duties that have a direct conflict with Thursday morning meetings.

What I am saying is that I have enjoyed being vice-chairman very, very much. I would ask the committee to accept my resignation from that position, although I fully intend to be an active participant in the committee, which I enjoy, in its future deliberations.

In the same breath, I would recommend my colleague Mr. Pelissero. I guess I have to do them separately, but what I am saying is that my time is being taken up by other responsibilities to some degree, and I feel I should vacate the chair and give it to someone who has more time available for the committee.

Mr. Chairman: Thank you very much, Mr. Ferraro. I would indicate that I have very much enjoyed working with you as a vice-chairman. I think you have been a real complement to the chair in your work as vice-chairman of this committee and I appreciate it very much. I thank you for the work you have done and hopefully will be continuing to do with the committee.

Mr. Ferraro: Thank you for those comments. It has been my pleasure to work under you, but now that we have given out all these accolades and I am half buried, could I make a motion?

Mr. Chairman: Mr. Ferraro moves that Mr. Pelissero be appointed vice-chairman of the standing committee on finance and economic affairs.

Mr. Mackenzie: You are supposed to make a speech for us.

Mr. McCague: That is called passing on the reins.

Mr. Ferraro: We need an agricultural perspective, I think.

Mr. Chairman: All those in favour? Opposed?

Motion agreed to.

The committee adjourned at 11:47 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TAX REFORM
GATT MEETING
PREBUDGET CONSULTATIONS

THURSDAY, NOVEMBER 17, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Miller, Gordon I. (Norfolk L) for Mr. Kozyra

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Board of Trade of Metropolitan Toronto:
Mamott, Sydney, Vice-Chairman, Taxation Committee
Taitz, Allan, Member, Taxation Committee
Hall, Edward, Member, Taxation Committee
David, Irene, Member, Taxation Committee
Hutchinson, James, Member, Taxation Committee

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 17, 1988

The committee met at 10:05 a.m. in committee room 1.

TAX REFORM
(continued)

Mr. Chairman: I think we should get started. Apparently Mr. Mackenzie is on his way here. I want to welcome the representatives of the Board of Trade of Metropolitan Toronto. I particularly want to welcome you because I realize, as you do, that we have given you very short notice to be here with us today. I should tell you that the committee has been attempting to look at phase 2 of tax reform. We have talked to some of our provincial officials about the negotiations that have gone on. We also heard from the Consumers' Association of Canada.

We recognize that a lot of the proposals are not really fleshed out and we probably do not know that much more about what the federal government is proposing than we knew in December 1987 when you appeared before the federal committee. I note that your brief this morning is based on that brief, and that is quite understandable and acceptable to us. I take it it was this brief that resulted in Mr. Blenkarn deciding there was a $10-billion windfall coming here. I welcome Sydney Mamott, the vice-chairman of the taxation committee, Irene David, Edward Hall, James Hutchinson and Allan Taitz. Perhaps you can carry on and lead us through your brief and then, hopefully, entertain some questions.

BOARD OF TRADE OF METROPOLITAN TORONTO

Mr. Mamott: Thank you, Mr. Chairman, and members of the committee. We also welcome the opportunity to give you our views, the views of the board of trade, and to hopefully be able to respond and be helpful to you in your deliberations. I would just like to point out the composition of the people who are here today before you.

Mr. Hutchinson is director of taxation with IBM, and so he represents manufacturers and industry. Irene David is a partner with Woods Gordon and obviously a consultant. Ted Hall is the manager of taxation with Hudson's Bay Co. Allan Taitz is a chartered accountant and he is a tax partner with Thorne Ernst and Whinney who advises and consults on sales tax matters. I, myself, am a tax specialist with an accounting firm, Laventhol and Horwath. So we cover the spectrum from industry, commerce and the professions.

First, as was perhaps not too clear from the presentation that was made to the federal government, which you have before you, the board is in favour of phase 2 of tax reform as it has been presented, with the caveat that we are in favour of it provided it can be introduced in concert with the provinces. I recognize that this presents certain problems, but certainly, in philosophic terms, basically it is our view that for the federal government to introduce a separate and distinct tax all on its own would create a number of additional problems.

It is widely accepted, for a large number of reasons which have received press over time, that the federal sales tax system now in force has a number

of flaws and has to change. The board is in concurrence with the conclusion that the fairest and most neutral form of taxation in the sales tax field is one which is applied at the retail level.

We are of the view that a combined federal-provincial sales tax can benefit Ontario in the following ways. First, there can be an expansion of the tax base such as bringing in all services, lawyers, accountants, architects, etc., which are not taxed at present. The expanded tax base is considered to be one which is more stable in times when profits may be suffering. Expenditures are still being made and, therefore, tax will be paid and that gives a more stable revenue to the province.

We feel, also, that there could be a decrease in the present leakage in the retail sales tax system, particularly in connection with cross-border transactions where goods are imported into Ontario and may be escaping the tax net. By broadening the tax base and increasing the sales tax revenues, Ontario may be in a position to decrease its personal and corporate taxes, thereby enabling the province to become more competitive in the world marketplace, particularly where we may be considering free trade, and certainly in considering even non-US trade such as with the United Kingdom, where corporate rates are lower.

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By having a combined tax, there would be a possible reduction in administration costs in that the province would be able to share those costs with the federal government. In addition to the benefits which would flow to the government, the board is of the view as well that the combined tax would benefit both the business community and consumers.

First, recordkeeping costs could be reduced, as would other compliance costs. Eliminating the compounding of the tax--right now eight per cent is generally applied to the 12 per cent federal tax, so that the total tax is not just simply 20 per cent but can be 21, 22 per cent--that would be phased out, and of course that would assist consumers.

The system that would be employed, as has received press, would assist exporters by removing the tax content and allowing exporters in Ontario to be more competitive on a worldwide basis. That would, of course, overall, increase the economic activity in Ontario.

The board is concerned--and you will find it in the letter you have before you to the federal government--regarding a number of issues, not the least of which and very important are the transitional implementation rules which will have to be put in place in order to ensure that such things as tax that has been paid, which is included in inventories and in other situations, would be credited properly.

Additionally, we are concerned that there is a view held that there is a wild new tax which is going to create all kinds of new revenues; it is likely that additional revenue will be created, but usually there is lost in that dialogue the fact that taxable goods already bear a tax rate of somewhere in the range of 16 per cent to 21 per cent. That may not be on 100 per cent of all of the goods and services which are offered for sale in the marketplace, but a goodly percentage does bear a hefty tax rate already.

In conclusion, I would just like to state that, as you have already said, Mr. Chairman, it is unfortunate for us that we cannot be specific,

because we really do not have specific proposals to deal with and so we can, in many instances, only shrug our shoulders and discuss things on a conceptual basis only.

On that, I would like to turn it back to you.

Mr. Ferraro: It will probably be a little clearer after Monday.

Mr. Chairman: It may be, but in discussing next week's meeting with Miss Anderson, as I indicated to her, I think all federal parties are in agreement, as I understand it, that the manufacturer's sales tax as we now know it needs reformation of some sort. The problem will not go away on Monday, necessarily.

You have indicated that the broadened base would permit our province to decrease its personal income tax and decrease its corporate income tax and thereby be more competitive. I wonder if you could address the question of imports and the extent to which this would give imports an advantage over our own production in our own markets.

Mr. Hutchinson: Ted, would you like to address that?

Mr. Hall: I think one thing that this would do is create a completely level playing field. With the concept of the value added tax being paid at every stage along the line and the intermediary's paying tax on his costs, charging tax on his selling price and this flowing through to the next level and the next level, it means by the time the goods are sold by a retailer to a consumer the tax is going to be identical if the goods are selling for the same price. Really, this would eliminate the advantage that imported goods are commonly said to have now, in that they are able to pay the federal portion of the tax before they add marketing and distribution costs, whereas the Canadian manufacturer, to a degree, has to include those costs in his federal tax base.

This tax would make it a completely level playing field as far as imports versus domestic products. Plus the fact that domestic manufacturers would not have this tax cascading which they presently do have in their base. They get relief for tax on some of their direct costs but they are paying both federal and provincial taxes on a lot of their administrative costs, and under this system they would not be. The advantage that importers perhaps would have now would be completely eliminated.

Mr. Chairman: I can see that there is an advantage that importers have now but I do not understand how it would be eliminated. If a product goes on the market here after, say, a total of 18 per cent in value added tax has been put on it, and another product comes in from, say, the United States and it has not had that tax added all the way through, would that advantage not still be there?

Mr. Mamott: Perhaps we might have a manufacturer respond to that question.

Mr. Hutchinson: There are a lot of different problems from the pure manufacturing point of view. If I can deal with a simple comparison of manufacturing versus importing, the current system is called the manufacturer's sales tax and it is levied on the manufacturer's selling price. That price therefore includes all of the administration, the marketing and distribution costs the manufacturer incurs in getting his product out to the market.

When a product is imported, it is normal for those costs to be incurred inside Canada for the goods imported. The current tax on imported goods is levied on duty-paid value. Effectively, therefore, it is the raw manufactured cost of those goods. So there is a pretty clear disparity in the tax base today vis-à-vis importers. There are other disparities inside Canada dealing with different ways of manufacturing, whether it is subcontracted, whether it is sold to a related marketing company, and they all have a similar effect: they create different levels of federal sales tax on identical goods.

Because a value added tax is a cascade tax through all levels of a transaction, the identical goods will end up paying identical tax at the end of the chain. So the manufacturer will pay a tax on his acquisitions. He will get a credit for it. He will charge tax to, let us say, the large retailer, who will get a credit. The large retailer will tax on ultimate selling price. The same pattern will be followed on imported goods. The importer will pay tax, receive credit selling it to the large retailer, and an identical amount of tax, assuming identical pricing, will be charged by the retailer.

So all of the inequities that manufacturers today are trying to struggle with disappear under a value added system.

Mr. Chairman: So the importer then, because he is bringing the product in, is taxed on the value added when it comes across the border.

Mr. Hutchinson: Under the value added system, correct.

Mr. Chairman: Is that compatible with the General Agreement on Tariffs and Trade?

Mr. Hutchinson: Yes, it is.

Mr. Taitz: Basically, the importer will pay value added tax on the price of the goods when he imports them. The person he sells to will pay him tax and he will deduct the amount that he paid when he imported it, and so it will go into the chain the same way as a Canadian manufactured product.

Mr. Chairman: I guess this is a problem and it is a large political problem that we all have to face very seriously. What about the basic concept of this being a consumption tax and therefore being imposed, in effect, in a regressive way, compared to an income tax?

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Ms. David: I think, as indicated in the board's submission, we are in favour of broad-based tax with no exemptions if possible. We think the regressivity of it could be handled through tax credits. If you give exemptions to, for example, something like food, or if you zero rate it, then everyone benefits from it. Why should caviar not attract tax and be in the same category as milk? Everyone benefits if an exemption is granted. To address regressivity, one of the proposals is to give sales tax credits back to the people who should be receiving the amounts.

Mr. Chairman: How fast does this money get back to these people?

Ms. David: One proposal that the feds have given is that they could issue the cheques monthly or in advance of the expenditure, because if you give it to the consumers at the end of the year, the chances are they are not going to go and buy milk and bread with it. They will buy some consumer item.

Mr. Chairman: I saw some figures recently, and they surprised me, which seemed to suggest that a larger proportion of income does not necessarily go to food among the poorer elements of our population, perhaps because the wealthy are buying caviar and it is expensive. To exempt food does not necessarily accomplish a great deal.

Ms. David: That is right.

Mr. Chairman: What is your response to the idea that housing should be exempt?

Ms. David: We had a great discussion about that before we came here. One of the concerns we have with housing is with respect to land costs. We do not have the perfect solution, but we think that something should be done to try to carve out the value of the land.

Mr. Mamott: I think it should be pointed out that at the present time, certain parts of residential housing such as bricks and the various construction materials, for instance, are, in fact, taxed provincially, and federally as well, of course. But they are taxed at a lower level than at retail, so it is not a tax that will apply at the consumer level. Additionally, there is no tax on land at the present time.

Mr. Ferraro: Except the land transfer tax.

Mr. Mamott: Right.

Mr. Taitz: Which is nominal in terms of rate.

Mr. Mamott: Yes, relatively nominal, certainly, in comparison with the rates that have been bandied about for taxation under phase 2 of tax reform. Even there we do not have a specific rate that has been proposed. But there is a problem with housing. Certainly, from the standpoint of introduction, implementation and administration of this type of tax, the ideal situation would be one where there were no exemptions. Then you would have this perfect type of symmetry. Obviously that is not likely to be acceptable for a number of reasons, so there will be some less than perfect symmetry likely introduced.

The question is how it will be introduced——the regressivity, how cheques will be mailed to people, when they will get them, how they will be spent, etc. Those are mechanics which obviously will have to be dealt with, but in a perfect world it would be ideal to have no exemptions because the problems with application of the tax start when there are exemptions. Take food, for instance; how do you define what food is? Will chocolate bars be exempt or will they not? Will there be a de minimis rule? You become bound by all sorts of rules and regulations which are in existence now and which make the system difficult to administer.

Mr. Chairman: When the Consumers' Association of Canada appeared before us last week, it started to discuss a land speculation tax, I suppose as an alternative. Do you have any views on that?

Mr. Mamott: Personally I have very strong views. I think we have seen it before and we have seen how relatively ineffective it was. I think if you were to look back in the records and determine how much tax was actually collected under that, you would find that it was a pretty worthless piece of legislation and created more problems than it was worth.

Mr. Chairman: Because of loopholes?

Mr. Mamott: Because of the fact that the manner in which it applied just did not work. If you were to apply it in any other fashion, you might be killing—who knows where the resistance point is with a developer? Who knows what the resistance point is, because anything you levy in a land speculation tax is certainly going to find its way to the consumer level. Developers will not bear the brunt of that themselves without increasing house prices or apartment rents or whatever.

Mr. Ferraro: My apologies to the committee and to the board of trade for being late. Do I understand the position of the board of trade is essentially, because there is this conceptual idea, you are cautiously supportive of the proposals? Would that be a safe way of classifying the board of trade's position now?

Mr. Mamott: I think that in principle we support it. Until we see details, it is very difficult to make any specific comment.

Mr. Ferraro: I do not want to be argumentative, but either you or the clerk provided us with a copy of your letter to Mr. Blenkarn, and the first paragraph says, "In that submission and at our appearance last September before the House of Commons standing committee on finance and economic affairs, we advised of our support for the national sales tax (NST) option and urged the government to implement as soon as possible the stage 2 proposals for reform."

May I be so bold as to ask, was there an apparition that hit the board of trade through a window recently or have you softened your position considerably?

Mr. Mamott: No, I think we adopt the same position. We were commenting in principle then, because that is all we had before us, and we have the same principle before us now. Our semantics may be somewhat different now.

Mr. Ferraro: When you say you "urged the government to implement as soon as possible the stage 2 proposals for reform," I am not sure that my interpretation is that you are supporting a principle. You are supporting substantive changes, are you not?

Mr. Taitz: We see the major problems that exist in the existing federal sales tax system, and these are wreaking havoc in many respects—for example, competition with imported product and competition between competing products, things of that nature—and it is essential that something be done about it as soon as possible.

Mr. Ferraro: I understand that, but does the stage 2 proposal not also have far-reaching, bona fide cost effects for the average consumer and business person administratively? There are so many hypotheticals, and by giving carte blanche support are you not negating that aspect of it, the hypothetical nature of it?

Mr. Hutchinson: In fairness, what was said earlier by our chairman here was that the pure value added system, with no exemptions and everything included in the base, is a very simple system to administer and the current combination of federal and provincial systems is anything but simple to administer today.

It is equitable vis-à-vis competing goods where today we have wide variations and inequities. It does carry the regressivity, which is a potential problem. That can be solved by means of a credit to those who require it and those who should receive it. The mechanics as to whether that should be monthly, in advance or whatever are details that we do not know yet. But those are the principles of the stage 2 which the board fully endorses.

Unfortunately, at this point we do not know precisely what is going to be there. We know there has been some discussion of items being excluded. Whether these would be exempted or zero-rated we do not know. There is a very big difference between those two treatments. That and many other details we just do not know yet.

Mr. Mamott: I would not want to confuse the agreement in principle with the general system that has been proposed and where we may take exception with some of the mechanics as they are developed over time. It may be that we do not agree with a mechanic which may be presented to us later on, but certainly in principle the overall system is far more beneficial than the system that existed.

Mr. Ferraro: I understand exactly what you are saying, but when I read this letter I did not see where you qualified it by saying you agreed in principle and that is why you gave it support. Maybe I am missing it.

Mr. Taitz: We are suggesting that the government work on this and devote its attention to this as a top priority in order to get ahead with stage 2 of tax reform.

Mr. Ferraro: That is fine. The last question I have I think is probably an unfair question, because I do not know what the hell the answer is to it. On the particular issue where you get rid of the manufacturer's sales tax with an NST, the dilemma of course that is being expressed by everybody--consumers' groups, politicians and so forth--is, is the saving going to be able to be passed on to the consumer or are the guys or gals in the middle going to grab it and so forth? Is there a solution as to how to--

Mr. Mamott: I think the board would have to concur with your preface. Once again, I think the mechanics of introduction, the transitional rules which are brought in, the manner in which the new system itself is introduced will play a large part in how that takes place and what will happen pricing-wise.

Mr. Ferraro: I guess that and the axe hanging over from the corporate tax standpoint are about the only levers the government has. All of a sudden, if the guy or gal's profit has gone up 25 per cent, it is--

Mr. Hall: One of the things we might say is right now in phase 1 we still have surtaxes on personal income tax and corporate income tax. In phase 2, they were to be eliminated. That is one of the things that is pushing us towards phase 2.

Mr. Ferraro: In principle.

Mr. Hall: Yes, right, once again.

Mr. Mackenzie: I think I heard towards the end there your comment about the regressivity still being a problem, but you are not sitting there telling us that the lower- or middle-income families are going to be better off as a result of the national sales tax or value added tax.

Mr. Mamott: I do not think the board of trade has done any econometric modelling to make such a determination. I think that is done at the government levels. But certainly the mechanic that will be introduced to offset any increased costs to the consumer, which is desired, will be a mechanical device that governments will deal with and introduce as they see fit, whether, for instance, advanced credit payments are made, whether we are heading towards some negative income tax type of situation, it is difficult to forecast what the provinces and the federal government will finally agree to on the introduction of that.

As I indicated, I think all of us here, although we may have different views on different items, are of the similar view that various mechanics will have to be worked out and there will be all sorts of things that will be discussed. Food has already been bandied about. First it was in, then it was out; who knows where it will wind up? What do you do with health care? What happens with residential housing, with residential land? These are all things that have to be dealt with, but as long as they are dealt with within the framework of this general overall system, I think they can be ironed out. Not to be forgotten is that consumers are paying a fairly healthy tax on taxable goods right at the moment.

Mr. Mackenzie: So without tax credits or exemptions, which you do not favour, is it fair to say you could not claim a better deal for ordinary people in this?

Mr. Hall: It is fair, yes, but we envisage that there would be a tax credit scheme as part of it. I think that is in the proposals too.

Mr. Hutchinson: May I just add to that? I think one of the comments the federal government has made regarding its introduction is that the sales tax credit will give it a more effective mechanism to rebate to low-income individuals the taxes they are paying currently. That obviously will depend on the size of the credit and how that is worked out, but if one accepts that statement, then one would assume that the low-income individuals who need help today will in fact be better off under the new system.

Mr. Mackenzie: I might have some reservations on that if you were dealing with even some of our current tax credit systems or problems with assistance in a constituency office on a regular basis. Look at the difficulties we sometimes have now getting the cheques.

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Mr. Mamott: I think so, yes. I can appreciate that. The thing too, which must be looked at when examining this, is that if, for instance, one is under the impression that food is currently untaxed, that is a false impression; food is taxed. There is a tax component in the sale price of food products because there is tax, paid by everyone in the chain that is selling food products, on all kinds of items, from equipment through to stationary, office supplies, trucks and so on. There is tax levied and the consumer is paying that tax. If then, the type of system is introduced where the tax is levied at the final stage and all prior taxes have been credited, then there are a couple of the benefits.

Firstly, consumers will be in a better position to identify the tax content. Whereas now it may be that government subsidies, grants, etc., do not take into account that tax component, clearly they could under the phase 2 proposal.

Mr. Mackenzie: You might obtain some benefits, but there might also be some contrary effects as well. The only other thing that stuck in my mind was that I take it, from your arguments, you are telling us that you do not see the kind of a government take from this tax that some of the pundits are suggesting.

Mr. Taitz: I think the amount of revenue they take out of the tax is a factor in how you arrive at the rate of tax. You take your base, you take the amount of revenue you want out of it and calculate the rate. That is purely dependent on what the government wants to take out of the tax.

Mr. Ferraro: But if your base is significantly expanded, that has to have a bearing.

Mr. Taitz: How much revenue? They are projecting something like $19 or $20 billion out of the federal sales tax for the year 1989-90. If you want to take $20 billion, your base is broader, you can lower your rate. If you want to take $25 billion now, well, you can play around with rates.

Mr. Ferraro: If they lower it.

Mr. Chairman: It is awfully tempting.

Mr. Taitz: Yes. I think I must concede that point. It is tempting and it is a possible cash cow, as it has been referred to.

Ms. David: But that temptation is there now with the federal sales tax. It is a hidden tax. Most consumers do not even know federal sales tax exists. The government could do that right now under the existing system.

Mr. Taitz: They have.

Mr. Chairman: Our government cannot.

Mr. Mackenzie: The reason I was asking it is because I recall our own Treasurer of Ontario (Mr. R. F. Nixon), in a luncheon meeting we had with him, indicating, if I am being fair, that philosophically he did not really agree with this tax, but on the other hand the revenue from it was such that the chief fight might be to see that Ontario did not somehow or other get cut out of its share of revenue.

Mr. Mamott: I think, as well, the other position is that if you collect more in the sales tax field, you would still have to look, as Allan has suggested, at overall revenues. What will you do with personal income taxes for instance. What will you do with corporate taxes. As you know, phase 1 of tax reform was instituted on the basis that Canadian rates generally will be competitive with those in the United States, because that is our primary competition in many areas. With the rates that exist provincially now, those competitive rates are out the window. If, therefore, a sales tax is introduced and the extra revenue taken thereby is given back elsewhere, then the overall revenue position will be neutralized as the federal government has pointed out.

Mr. Mackenzie: It is just the "giving it back someplace else" provision that people talk about.

Mr. Hutchinson: I would just like to add one thing to that. As everyone here is aware, when the province increased the sales tax rate there was a quite a large public reaction. By making the federal component also

visible to the public, there is a public laundering of it. I think there would then be a natural control on the rate. Today it is invisible; therefore there is no control.

Mr. Chairman: It is interesting to note, though, that in 1961 the sales and excise taxes amounted to 36.5 per cent of federal government income. In 1987-88 it was only 26.5 per cent. The greater proportion is now coming from personal income tax. That may belie our fears. I do not know.

Mr. Hall: They took the tax off clothing, which was a big factor in that drop. In 1974 it went off all clothing. In 1972 it went off children's clothing. That is the federal tax.

Ms. David: Also, because the existing system has a whole host of exemptions and the rate has been going up, taxpayers have become more aggressive and have been challenging the Department of National Revenue's interpretation of exemptions. It has lost a lot of revenue over the past few years in large refunds.

Mr. Chairman: They have been succeeding in their challenges?

Ms. David: Yes. Every time the government makes an attempt to clarify what it meant by the exemption, it has not been very successful in some areas. That is the biggest problem with exemptions--interpreting them. A whole industry has been created because of the exemptions.

Mr. Mamott: I think if one looks at both the federal and the Ontario sales tax systems, in many areas they become administrative in nature. Regulations come in and administrative policies are developed which are required because the system is fundamentally flawed. If there is not that type of administrative flexibility, it just will not be workable. As a consequence, particularly federally, because that basic tax has been in place for so long, it has just grown into a monster.

Mr. Haggerty: I want to follow along the lines my colleague Mr. Ferraro talked about. The board of trade letter says, "We advised of our support for a national sales tax option and urged the government to implement as soon as possible the stage 2 proposals for reform." You will find that with the Response to Tax Reform, prepared by the Canadian Chamber of Commerce and published in August 1987.

In each case, as you sum up your reservations, you have some concerns about it, yet you support it in principle. In the area of the value added tax and concern about cascading, have you received any commitment from the Minister of Finance that he will plug the loopholes in this area and that he is not going to permit cascading through the value added tax?

Mr. Mamott: Allan, would you like to address that?

Mr. Taitz: The value added tax eliminates cascading by virtue of the fact that the tax you pay when you buy--and this is talking in terms of businesses--is fully deductible from the tax that you collect at the time of your sale. Cascading arises when you buy something, pay tax on it and then have to include that in your price when you resell. Therefore, the price is increased by the amount of tax included in your cost structure and if you are paying tax on tax as it goes down the line.

So the tax you are paying is increased by amounts of tax that have been

incurred as you progress down the chain. So a value added tax does eliminate cascading. This is the one major advantage of the value added tax, that the final price has no tax in it at all. It has all been eliminated and the tax that the consumer pays at the end is the full amount of tax that is going to go to the FST.

Mr. Haggerty: What do you mean by avoiding cascading then?

Mr. Taitz: Cascading, as I understand it, is paying tax on tax.

Mr. Haggerty: That is like a value added tax, is it not? You start with one tax and then you add it—

Mr. Taitz: You deduct the tax. You are paying tax on the increase as you go down the line by deducting the tax you paid at the time of purchase. So whatever you paid, you get back immediately when you resell as it goes down the chain, so the last person in the chain recovers all the tax that was paid up to that point and collects tax on his selling price. There is no cascading. There is no tax on tax.

Mr. Ferraro: If I can interject, the province has cascading now, where we charge a tax, for example, on Bell telephone bills and cable television.

Mr. Taitz: We pay tax, as a business enterprise, on our telephones. We sell goods. We have to include in our cost structure the tax that we paid on our telephone account if our price is higher, to the degree that we have incurred tax already. Then our higher price now bears the tax. That is the cascading.

Mr. Haggerty: Value added tax, ad valorem tax, whatever it may be, but it is added tax on top of taxes.

Mr. Taitz: No, because you get the tax back. You get all the tax you paid back. Whatever you paid in tax is deducted from the amount of tax you collect. It flows through completely in a value added tax. You are only paying tax on the increased value.

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Mr. Hutchinson: If you think of it in the present system, if a manufacturer is selling something for $100, there is a $12 tax applied to that, so the price is now $112. If the retailer had absolutely no markup on that, to deal with a simplistic example, the Ontario retail tax would be eight per cent of $112, which is cascading.

Under the value added system, the price would be $100. The retailer would pay $12 to the manufacturer but would receive a refund of that and would charge—I will use the same—the 12 per cent tax to the ultimate consumer.

Mr. Haggerty: The consumer, that is right. He pays the provincial tax on top of that.

Mr. Taitz: No. If it was a combined 12 per cent rate—I am trying to keep the rate simplistic—the consumer would pay 12 per cent on $100. Today he is paying the rate on $112.

Mr. Chairman: The presumption here is that we are in on this scheme—

Mr. Hutchinson: Yes, that is correct.

Mr. Chairman: —and supposedly $6 of that $12 would come to us eventually.

Mr. Hutchinson: That is correct.

Mr. Haggerty: That is combined provincial and federal tax.

Mr. Hutchinson: Yes, it is.

Mr. Haggerty: But there is no commitment to that area. The eight per cent sales tax will still remain, plus the federal tax in this area, so instead of looking at 12 per cent you are looking at maybe 20 per cent.

Mr. Hutchinson: But I would suggest we are today.

Mr. Haggerty: Looking at Bell again, if we can use that as an example—

Mr. Taitz: Let's take Bell. You have a telephone account of $100 and you paid $12 tax on it. When you sell your good for $150, let's say, which includes a markup, whatever you are going to have, you will collect $18 on $150 and you will get back the $12 you paid on your Bell telephone account.

Mr. Haggerty: I am not worried about who gets back the $12; I am worried about who is going to lose the $12, and that is the consumer.

Mr. Taitz: But it is in your price now. That is why you would leave it out of your price. You would keep it out. This is a credit towards the tax we collect. We would collect $15 or $18. We have already paid $12 because we paid it to Bell, and we now have to remit $6.

Mr. Haggerty: But coming back to Bell, if I interpret it right—and I think my figures are right—if you bill us $100, the federal sales tax is $12. You come along now with the provincial tax; the provincial tax is on that $112.

Mr. Mamott: Quite correct.

Mr. Haggerty: Is this going to be removed? That is what I want to know.

Mr. Mamott: That is what we are recommending.

Mr. Haggerty: Now you are coming back to my question. What results have you got from the Minister of Finance? Has he indicated he is going to accept your three recommendations on page 5 of your letter to Donald Blenkarn, MP, head of the finance committee there reviewing it?

Mr. Mamott: To the best of my knowledge, the federal government has stated it will make every attempt to reach an accord with the provinces so that a combined tax will be what is introduced. Whether, in the final analysis, that will be possible, I do not know, but certainly the Minister of Finance has gone on record as stating that is the goal.

Mr. Hall: Could I give you an explanation of your sales tax on the telephone? The charge is $1. The federal government adds 12 per cent. The

Ontario government then taxes $1.12, which means its tax is $8.96. Under the new system, assuming those rates held, the tax would be 12 per cent plus 8 per cent, so that 96 cents of cascading would be eliminated.

Ms. David: There is also another issue, going back to the telephone example. Telephone companies charge 10 per cent federal tax actually and then they charge the provincial. The telephone companies also pay federal and provincial sales tax on all the equipment they use to produce telephone services. Everything they buy, all their goods, have that tax right now. Those taxes which they pay to their suppliers, which are quite significant, are built into their charge for telephone service.

Mr. Haggerty: Even the person who gets his monthly telephone bill is paying tax on equipment that he is renting.

Ms. David: That is right, but the point is that when Bell bought a new switching system, it paid 12 per cent and eight per cent on its purchase price for that switching equipment. It then built in that total charge, including those two taxes, to its charge for telephone services. It then added the tax to the telephone service. That is cascading. It pays it on its purchase; it then charges the tax on its selling price. Estimates are that the government really got another four per cent, federal and provincial, because there is double taxation.

Mr. Haggerty: They do the same thing with the municipals. When they are buying something for the utilities or fire department, you get 12 and 8 per cent on fire equipment.

Ms. David: But they are not charging the tax on their services, as well. Telephones are.

Mr. Haggerty: But they are still paying a tax on this.

Ms. David: That is the problem with the whole system, right now; there is all that double taxation, and under value added tax, that is gone.

Mr. Mamott: From a consumer's standpoint, when taxes double, the vendor of the goods or services does not simply pass exactly that charge on to the consumer, because he has borne a cost and therefore there is a profit margin added. Every time there is a tax, which is not credited as it would be under the new system, there is an additional profit margin. We can talk about tax in terms of 12 per cent and 8 per cent, but when you factor in the inherent profit margins that are there because of the way the present system works, the actual amount of tax is much higher.

Mr. Haggerty: That is right. This is the point.

Mr. Mamott: Which is what the new system will alleviate.

Mr. Haggerty: Hopefully, it will.

Mr. Mamott: It should.

Mr. Haggerty: It should.

The other matter concerns your second recommendation: "All Canadian residents who purchase financial services from persons outside Canada must be subject to tax. Otherwise, there will be a tax leakage caused by Canadians who

borrow abroad." Can we have a little further explanation on this particular area? What are you driving at, particularly, in this area? Are you talking about financial institutions?

Mr. Mamott: Yes. That relates to financial institutions. I think what the board has presented in the letter is that there are some concerns about how such a tax on financial institutions would be introduced. Again this morning, not having specifics to deal with, we had to deal with the question of, were we fundamentally in agreement with taxing financial institutions at all because of the great complexity involved, and was there some simple method of achieving the tax structure which would not put most of the burden on the average consumer but perhaps would draw it from business?

Mr. Haggerty: In regard to the three questions that you raised to the chairman of the finance committee, if none of these is accepted or adopted by the government, would you still support the sales tax?

Mr. Mamott: I think we would have to look at the entire package at that time.

Mr. Chairman: You are saying that financial services should be included, then. The Toronto Stock Exchange told us last year that we would never be able to compete, with the Big Bang and all that has occurred in the world.

Mr. Mamott: Again, dealing with sales tax reform, in principle, in its ideal state, there should be no exemptions. What exemptions finally find their way in because of the requirements of economic pragmatism, simplicity--

Mr. McCague: The political process.

Mr. Mamott: Yes. I did not want to say that.

Mr. Hutchinson: I think the other part of that is, in the ideal base, with everything being included in the base, one also has to make sure that acquisitions from overseas, such as foreign borrowings or whatever, are also included in that base so that there cannot be within the system a penalty on Canadian industry or Canadian business.

Mr. Chairman: The discussion you had with Mr. Haggerty about the phone bill is rather interesting. When we changed this retail sales tax in April, it seemed to raise perceptions of the existence of the manufacturing sales tax with a lot of people for the first time. I got calls in my constituency office about the cascading element of the purchasing of major appliances and things. It had already existed for years, and they found it impossible to accept that this had been going on for years and they did not know it.

Let's assume for a moment that we are not going to have a national sales tax. I wonder if anyone can give us some ideas as to how the present system can be improved, how the manufacturing sales tax, perhaps, could be improved. Can we somehow avoid cascading in the application of our retail sales tax? This value added tax is being described to us as something that is very easy to administer; I take it that is because we are going to be using computers for everything from here on in. Is there some way we can do that? There are two questions there, I guess: How can we improve the manufacturing sales tax that we have? How can we, as a province, avoid cascading with our retail sales tax?

Mr. Taitz: I think what we could do, and what I do see happening, is that we would get a federal value added tax without the provinces participating. Then, because it is an identifiable amount, the provinces might exclude the federal tax base or the federal sales tax element from the base on which they imposed the retail sales tax, if they so wished.

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That would be a decision; but I still think it is driven by the amount of revenue they want to extract. Whether you exclude the federal base or increase the rate somewhere else in order to get that amount of revenue, it is six of one and half a dozen of the other.

What I see in terms of fixing the existing manufacturing level of sales tax is just so fraught with difficulties and problems. There is a temporary fix proposed—but it is very, very temporary at the moment—which is this marketing and distribution cost reduction. It does not seem to have a lot of support and it does not seem to have a long-term lifespan. So I think we will see a federal-only value added tax, as I say.

Mr. Chairman: The other question I had was about the sales tax credit. It seems to me that it is a nice answer, it is a pat answer, but what does it mean? Would you be applying this to consumption with a means test of some sort or would you be applying it to the income tax, where we would basically be talking about a negative income tax?

Mr. Hutchinson: That largely depends on how it would be implemented. Today there is a federal sales tax credit covered within the income tax system. It is based on tax immunity. There is also a child tax credit within the income tax system which is based on family income. In fact, it is paid out semi-annually, I believe.

The structure and the organization of the sales tax credit has not been really discussed to the present. One example that I am aware of is New Zealand, which brought in the tax fairly recently. They introduced a credit and, in fact, their approach to it was to pay it as a monthly amount in advance, based on income. The intention of the credit is to make sure that the low-income individuals have the cash in their hands as they make their requisitions so that you effectively eliminate the tax burden from them.

To date, the federal government has not made any decisions that we are aware of in terms of the structure of the credit or how it might be paid. But very clearly, in the adoption of the value added system, the credit for low-income individuals is a very key part.

Mr. Chairman: What is happening in other jurisdictions? Is that the one that is being used—a monthly advance?

Mr. Hutchinson: That is what New Zealand has implemented. I am not aware of any other country—in Europe, for example, where all countries have value added systems—with any other form of credit to low-income individuals. I do not know if anyone else is aware.

Ms. David: No. Usually the systems they offer have multiple rates and all kinds of exemptions.

Mr. Chairman: They have exemptions.

Ms. David: Yes. In many countries they have exemptions and they run into a lot of problems. That is why their rates are so high, because every time you grant an exemption, if you want the same revenue, you have to jack up the rates for all the other goods and services.

Mr. Chairman: Is the exemption on the product or to the person?

Ms. David: It varies all across the map. In some countries they have exemptions for farmers; in other countries they may exempt food at a certain level. There are many different combinations.

Mr. Chairman: You do not know of any that actually make a payment to low-income people.

Mr. Taitz: New Zealand.

Mr. Chairman: Do they? Is that working?

Mr. Taitz: It seems to be working reasonably well--really well, according to the New Zealand authorities.

Mr. Hall: They introduced their tax in October 1986, but so far, from everything we hear, it is working very well.

Mr. McCague: To get back to your Bell telephone example, did I understand correctly that your estimation is that of that $100, where the tax presently starts to apply, there is probably built into that $100 about a $4 tax?

Ms. David: The estimates are that the federal and provincial taxes, on average, are about three per cent to four per cent.

Mr. McCague: Basically, what you have now on that is when you pay your bill to Bell, there is probably close to a 25 per cent tax on that final bill.

Ms. David: That is right.

Mr. Hutchinson: If I could just add, the three to four per cent that Irene refers to is also applied in export prices from Canadian manufactured goods because there is no way of extracting that tax.

Mr. McCague: When you added the 12 per cent and 8 per cent, you got--

Mr. Mamott: Roughly 21 per cent.

Mr. McCague: Yes, 20.96 per cent.

Ms. David: But the rate on telephone services is only 10.1 per cent.

Mr. McCague: Yes, just to use that example. Treasurers are very creative people, especially when you get a situation where you might have a lowering of income tax. It would be very easy for the Treasurer of the day to use that as his barometer or whatever. Do you think there is anything that can be done to stop that whipsawing that might go on?

Mr. Mamott: I think one of the benefits which will be derived from the introduction of the phase 2 tax is that it can be highlighted to the

consumer, whereas it is presently hidden. Any rate increase will be known in the same fashion as what occurred when the provincial rate went to eight per cent, because provincial tax is now levied at the retail level.

If they combine taxes levied at that level as well, I think generally that is the control because the population will then be phoning your constituency office and complaining. If the treasurers get too creative in one fashion and regressivity becomes too great a concern, then perhaps income tax reductions will not be so great and sales tax increases will be modified. But at least it will all be in plain view of the public.

Mr. McCague: Everybody understood when it went from seven per cent to eight per cent, but that did not stop the Treasurer from doing it. I guess the point I want to get at is that if the provinces and the federal government agree on a value added tax and also agree, initially at least, on a rate of income tax, is there anything that can be done to stop the Treasurer of the day in a province, let's say, from adding a couple of points on to what has been agreed to as the tax base or the income tax base?

Mr. Mamott: I think the only recourse is the political process, that any rate increase would have to go through the Legislature and/or Parliament.

Mr. McCague: You, like me, believe that people forget in four years, I am sure.

Mr. Hall: Could I give you an example? About 1970 the Ontario ministry decided to tax heating fuel.

Mr. Haggerty: John White.

Mr. Hall: I cannot remember who, but—

Mr. McCague: Long underwear, yes.

Mr. Hall: —that did not last very long because of the consumer response. It was hastily withdrawn. As Sydney was saying, the more open the taxes are, the more control the general public has. I guess they have to make the decision that the province needs so much revenue to do its business. It has to levy it some way. If it is open, if the people know how much income tax they are paying, how much sales tax they are paying, it helps them decide, in the process, how much tax they want to pay as against the services they get.

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Mr. McCague: How many people know how much of the income tax is really federal and how much is provincial?

Mr. Hall: About a third of it is provincial.

Mr. McCague: Right, but how many people know that?

Mr. Mamott: Those who look at their tax return have it clearly segregated.

Mr. McCague: I would suggest to you that a lot of people do not, though. That is the problem.

Mr. Chairman: How many, even after they have done their tax return, realize it?

Ms. David: Right now, I would say that at least 90 per cent of consumers do not even know a federal sales tax exists. Everybody knows about retail sales tax.

Mr. McCague: You would wonder why they would want to change the system at the federal level, would you not?

Mr. Hutchinson: That, I suggest, is one of the problems which has given rise to a system such as we have today; it is because there has been very little public reaction. Indeed, I suggest that if the public were aware of the vagaries of the federal sales tax it would have been replaced many years ago.

Mr. McCague: I understand what you are saying. I am just trying to get you to suggest to me a way of stopping provincial treasurers from tacking on to a system that might be agreed to among the provinces and the federal government on the income tax level. The weakness I see in it is the temptation to have the income tax rate down low at the start and to keep boosting it a couple of points, politics aside, as treasurers have done.

Mr. Taitz: I think this is a major criticism of value added tax, that is, that it is the cash cow, and I think it probably is a valid criticism. I do not know what legal constraints you can place on treasurers not to do it without having an increased majority for this sort of vote or something like that, but I think it has to be done in that fashion.

Mr. Chairman: Most of you are concerned with provincial treasurers, but now, while negotiations are going on, the federal government could insist that we not be allowed, for instance, to have a provincial sales tax. I think it has been indicated that, as the negotiations are presently progressing, we would be able, if we wished, to join the national sales tax and still have the provincial sales tax—which, presumably, would be less than eight per cent.

Mr. Hall: It would be a terrible situation administratively.

Mr. Chairman: Why? The national one is simple and we would simply keep doing what we are doing as well.

Mr. Hall: It is not a simple system right now in respect of exemptions.

Mr. Chairman: Yes.

Mr. Hall: Last week, I got three calls in my office. "Do we tax tinned biscuits or not?" The present system is full of exemptions. Every exemption raises administrative problems for the retailer and the consumer. So to not have two taxes, when they could be combined into one and, hopefully, have the number of these administrative problems reduced by widening the base, offers a great chance to simplify everyone's life.

Mr. Mamott: You would be astonished, Mr. Chairman, at the complexity involved regarding the present Ontario tax structure. When you buy coffee from a takeout vendor who may also sell some form of pastry or other, the number of tax cases presently extant over that type of situation would boggle the mind—as would the amount of money that goes into that whole process so unnecessarily. The more exemptions, as has been stated, the more complexity and the more opportunity there is for tax planning.

Ms. Hart: Mr. Chairman, might I add to that?

Mr. Chairman: Sure.

Ms. Hart: Not only would there be the administrative difficulty of two types of sales tax, probably on different bases, but also any provincial Treasurer would be under a great deal of pressure from the business community because it will want the credits from the sales tax.

Mr. Mamott: Yes. Exactly.

Mr. Chairman: So we are not going to do it, but the option seems to be still there.

Ms. Hart: That is something that has to be faced.

Mr. Chairman: Yes. Mr. Miller, you had a question.

Mr. Miller: Under this proposal, you would be taxing food products across the board. Is that the principle?

Mr. Mamott: At the present time, the federal government has stated that food products would be removed from the tax system and they would be exempted in one form or another. I think this type of exemption would be a mechanism that would have to be worked out in the situation of a combined sales tax as between the federal and provincial governments, just what would be taxed, what would be exempted, how it would be exempted or possible forms of exemptions, at least. Right now, the federal proposal is not to tax food.

Mr. Miller: What about the sin tax, like tobacco? That plays a tremendous role in my area because we are a tobacco-producing area. Can you see it being revamped?

Mr. Mamott: Tobacco tax is a separate tax over and above any retail sales tax that may be levied and really has not been part of our considerations. Whether the province would want to change its tax policy with respect to the additional taxes on liquor, beer, wine and tobacco products is, again, within the purview of the Treasurer and within the political process as to how these products are seen to fit within the system.

Mr. Miller: I think it does have an effect, particularly in the tourist trade. You were talking about free trade. Going back and forth across the border, you certainly get a lot better deal as you go to the other side, to our friends to the south, as far as those kinds of taxes are concerned. It really affects the price tremendously.

Ms. David: From discussions with the Department of Finance, its intent is to replace only the federal sales tax system with this tax, not to replace the excise duties that apply to liquor, beer and tobacco. They are separate systems.

Mr. Hutchinson: It should be recognized, however, that in the case of your constituents, all of their approaches today which are subject to tax and which they have to carry as part of their production costs would in fact be credited to them, which gives them relief in their operating expenses.

Mr. Chairman: I am just wondering, when you mention the problem of tinned biscuits, how would a national sales tax deal with that, whether there

would be a propensity to try to convince the government that 99 cents out of the dollar is biscuit. There is really no value added on the tin, I suppose.

Mr. Hall: You see, this points out the problem of exemptions.

Mr. Chairman: As soon as you start any exemption.

Mr. Hall: Where the line would be drawn would be political, I think, rather than practical or economic. Although, to me, there is no difference between a big chocolate bar and a tin of biscuits, right now there is a significant difference in tax.

Mr. Chairman: Does anyone else have any questions? Fine.

We appreciate very much that you have been allowing all kinds of potshots to come at you. As you can understand, we all have a lot of questions, because there are so many unanswered questions, I suppose. It gives us a much better feeling, I think, as to what sort of negotiations we would like to see our government doing, if any. It has been very, very helpful. Again, we appreciate your coming on such short notice.

Mr. Mamott: We appreciate the opportunity, and I might add that as more information does become available, more specifics become known, we would be pleased to repeat the performance should you require additional information at that time.

Mr. Chairman: We appreciate that very much. We may or may not be making some recommendations shortly on where we stand now. In any event, we expect in the next few months to be doing prebudget hearings, again, with some reports back to the Treasurer, hopefully in early February. He has indicated to us that he would like to hear, certainly before that time, any views that we have on this topic. If there is more to be discussed, a few weeks from now you may want to come back and appear before us on that issue and include phase 2 comments on aspects of it that we had not been aware of.

Mr. McCague: Does that mean you are reserving your comments until Tuesday?

Mr. Chairman: Right. Thank you very much.

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GATT MEETING

Mr. Chairman: There are a number of matters I need to discuss with the committee.

First, on the question of our participation in the mid-round General Agreement on Tariffs and Trade meeting at Montreal, Mr. Decker got himself involved in a fair amount of bureaucratic tossing around. The host is the Trade Negotiations Office in Ottawa. The Trade Negotiations Office was not receptive to our participating in any way. It felt it had gone a long way simply to invite our Minister of Industry, Trade and Technology (Mr. Kwinter). It referred the matter back to our Ministry of Intergovernmental Affairs.

Our Ministry of Intergovernmental Affairs suggested to Mr. Decker that it was not in the cards, simply because, I suppose, in the parliamentary system it is expected that the administration involves itself in trade negotiations and not the legislators.

I discussed the matter with Mr. Kwinter with a view to his doing some intervening on our behalf, since he has been invited, but he too was invited essentially as a guest of the TNO and he suggested that he would find it awkward to raise the point.

As our clerk has indicated to me, time is running short for making any travel and accommodation arrangements.

Mr. Haggerty: Just on that point, are there any other agencies that have been offered to attend the sessions in Montreal besides the government?

Mr. Chairman: Not to our knowledge.

Mr. Haggerty: Would it be worth while to make an inquiry on that, to find out if there are other parties invited there?

Mr. Chairman: Such as lobbying groups?

Mr. Haggerty: Such as the business sector, banking or financial institutions. It would be interesting just to see.

Mr. Chairman: We can do that. We certainly will do that. It may be that is happening and we are not aware of it. Maybe American Express is there. Presumably, it is government-to-government negotiations essentially, but we will check that out.

Mr. Haggerty: There may be some other special interest groups from other countries that have had an invitation to attend.

Mr. Mackenzie: While it would be interesting, I do not think it has been in the cards from day one, so I would not waste a lot of time on that.

Mr. Haggerty: No. I am just curious to find out.

Mr. Chairman: Why do we not make some inquiries just to see? I am not sure how we would find out in a formal way, because maybe they are behind the scenes and not formally at the meetings. It sounds to me as if that is as far as we are going to get, if we get that far. Then there is the question as to how far we should go.

Mr. Ferraro: I fully concur with the comments of Mr. Mackenzie. You could ask Mr. Kwinter for a list subsequent to the meetings, but irrespective of the fact that there are a couple of associations going, big deal. We are not invited and I think we should accept it.

Mr. Chairman: I should tell you as well that Mr. Kwinter indicated that he has a document which I think he thought was going to be before a cabinet committee this morning for discussion. He was personally of the view that he would be quite happy to release that document, which would set out our position, I guess, to us as soon as he got permission to do so. He was also more than happy to come here and be debriefed afterwards. So perhaps that is what we should be looking towards doing.

Mr. McCague: I am sure he will find plenty of reasons why he should not release that until he does it in Montreal.

Mr. Chairman: Yes.

Mr. McCague: I would not be one who would encourage him to do so. It waters down his arguments.

Mr. Chairman: I am sure they will make their tactical decisions and we will find out. I will keep after him on that. We will probably not see it until after Montreal.

Mr. McCague: In other words, do not ask.

Mr. Chairman: All right.

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Mr. Ferraro: His position there is purely as a bystander anyway, is it not?

Mr. Chairman: I think it is technically being looked at as a bystander from the other countries' point of view. I think Canada obviously realizes that it is a sensitive area and if they want to be able to bind us in any treaty, they have to involve us, at least from an information point of view.

Mr. Ferraro: Consultative point of view.

PREBUDGET CONSULTATIONS

Mr. Chairman: The prebudget consultation advertisements have been placed and should be run by Thursday of next week in Le Devoir and the following Monday.

Next week we have before this committee Andy Friedman, from Peat Marwick, who is a sales tax expert and who has been referred to us from the Canadian Tax Foundation. He is prepared to come next Thursday, not knowing at this moment where national sales tax will be on the political agenda. He is prepared to talk to us about alternatives, which might be what we are looking at, to reformation of the manufacturing sales tax.

I would ask each caucus to be ready next Thursday to tell the chair to what extent you want to report back now to the Legislature or to the Treasurer, or both, on this issue. The following Thursday, December 1, we will have Ministry of Treasury officials here to brief us on the present state of the economy of the province in the commencement of the prebudget material.

If we are going to report to the Legislature, I would strongly suggest that we at least consider a state-of-the-union report. I know that both of our last two sets of witnesses have emphasized that we are only dealing with vague generalities but the Treasurer has indicated that he would like a little guidance from us on what kind of reaction he should take to the overtures that are coming from the federal government and it would seem that next week would be the time to do that. Perhaps we may want to leave aside the second hour next week to do that.

Mr. Mackenzie: Report back regarding the sales tax issue, is that what you are saying?

Mr. Chairman: Yes.

Ms. Hart: I have a question. You said that advertising had been done

in Le Devoir. Is that because it is the only French daily newspaper distributed in Ontario?

Mr. Chairman: Yes. It is an Ottawa daily. No, not Le Devoir—Le Droit.

Ms. Hart: I understand.

Mr. Chairman: The Ottawa paper, not Le Devoir. We are not advertising in Le Devoir. We voted last week to advertise in all the dailies but not the weeklies.

Ms. Hart: I appreciated that. It was just that I knew it was a Montreal paper and I was curious as to why we would be advertising in Montreal.

Mr. Chairman: No. It is both Mr. Decker's and my mistake.

Mr. McCague: You mentioned a caucus opinion on what we do about tax reform next week. I can go and ask my caucus—you can too—but I wonder why, for two reasons. First, I do not think we are done with the issue. I do not think anything that we put before the House at this particular time, if it was based on what we have heard, would be particularly helpful to anybody. Not that what we heard was not valuable but, if you were to sum that up, I do not think it is of any particular value.

If we had to make a suggestion to the Treasurer on tax reform, I do not see why it could not be done in our prebudget consultation report if you chose to do that. But I think the more likely scenario is that we would want to carry on with tax reform if it is going anywhere. As you have said, the three parties seem to be in favour of some change in the tax system, at least. So we are going to see something coming out of Ottawa at some point in time regardless of who the government is. I would suggest to you that anything we might say about it now would not be informed or of any particular value. Therefore, I respectfully suggest that we do not worry about that at this particular time.

Mr. Chairman: I cannot argue strongly against anything you have said.

Mr. Ferraro: Before you go on to another question, may I add something?

Mr. Chairman: Yes.

Mr. Ferraro: I just want to add that I fully concur with Mr. McCague's comment. I think it would be premature.

Mr. Mackenzie: I take essentially the same position. We have had two witnesses, one in effect for and one against the idea of a national sales tax. What you would get, and the only thing you would get, would be the three political positions or three party positions on the committee. I just do not think we are anywhere near ready.

Mr. Chairman: Both witnesses say they really do not know enough about it to tell us very much. I should tell you, in so far as your information is concerned, that Miss Anderson has given us a report from the federal finance committee on its trip to New Zealand where it was able to study the sales tax credit system in that country. Thanks to our having obtained this confidential report, which I will distribute to you, we do not have to go to New Zealand to find that out.

Mr. Mackenzie: Now, you have spoiled the day.

Mr. Chairman: You are all very happy about that.

Mr. Mackenzie: Is it not amazing the number of new initiatives that Mr. Lang has taken, I presume, on auto insurance or labour legislation.

Mr. Chairman: I accept, and I am certain I am hearing from all three parties, that there is nothing terribly edifying that we can report to the Legislature as a result of what we have heard. I simply raised the subject because it was raised with us by the Treasurer. I think it was good that he raised it with us because, if decisions are going to be made to follow some plan, they are going to be very far-reaching decisions for our province and they are going to be ones that are going to be difficult, if not impossible, to reverse. I do not regret that we are spending some time asking as penetrating questions as we can on the topic. It will give us some background to perhaps be a little more helpful in our prebudget report on the issue of taxation than we have been in the past.

The other thing I want to report is--

Mr. McCague: Just a second. I had a second question.

Mr. Chairman: Oh, I am sorry.

Mr. McCague: Maybe you were going to answer it right now, but have the estimates of the Ministry of Treasury and Economics been referred to us?

Clerk of the Committee: There are no estimates for this committee at the moment. As of yesterday, as far as I am aware, there were no estimates referred to this committee, unless there was a motion in the House yesterday.

Mr. Ferraro: Who does the Treasurer's estimates?

Mr. McCague: That is what I am saying. I understand from one of the House leaders that Treasury and Economics estimates will probably be referred here.

Mr. Ferraro: That was a request in a previous report.

Mr. Chairman: We have asked for it. We have written to them and asked for it. A while back, when we were asking for more sitting time, our proposal included a suggestion that we be given, at least during this Parliament, some estimates to deal with, and I think that is still in the negotiation stage.

Mr. McCague: I think there are two things. One is the reform of the estimates process. I think this is something that is being considered by the House leaders to expedite the consideration of a lot of estimates but not necessarily considering the report.

Mr. Chairman: Yes. The last thing I have to report is that the finance branch is now assuring us that our expense claims will be completed by tomorrow and cheques will be issued by Tuesday for you know what.

The committee adjourned at 11:30 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TAX REFORM

THURSDAY, NOVEMBER 24, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
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Cleary, John C. (Cornwall L)
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Haggerty, Ray (Niagara South L)
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Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From Peat Marwick:
Friedman, Andy J., Partner

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 24, 1988

The committee met at 10:06 a.m. in committee room 1.

TAX REFORM
(continued)

The Vice-Chairman: It is my pleasure to chair the meeting until Mr. Cooke arrives from Kitchener and I would entertain a motion to allow us to proceed to receive evidence.

Mr. Morin-Strom: I do not think that is proper. I think we should just receive the evidence. I do not think we should have any motions.

The Vice-Chairman: Oh, okay; fair enough. That is fine. We do not need a resolution to do that?

Interjection: No, because that would involve voting.

The Vice-Chairman: That is fine. Okay.

It is our pleasure today to have scheduled to appear before the committee on tax reform Andy Friedman, who is with Peat Marwick. He is a sales tax expert. He served as a consultant to the federal finance and economic affairs committee. He briefed the committee for several days on the proposed sales tax. Mr. Friedman, we are more than happy to have you here to hear your thoughts and entertain some questions from the members.

PEAT MARWICK

Mr. Friedman: Thank you for having me. I do not have much of a prepared text, because my position can be put in a couple of paragraphs.

I must sound like a broken record if you have already heard from some people. VAT is long overdue, and I use VAT--value added tax--generically. It has been called BTT, business transfer tax; NST, national sales tax; TTC or whatever you want. Its initials change every week.

Federal sales tax is a very unfair tax. It punishes manufacturers for locating in Canada. I could never understand why a country would have a tax that forces individuals to go outside the country to manufacture and pay tax on costs, rather than a Canadian manufacturer who pays tax on selling price.

It is a tax that is imposed at different rates. There are five different rates on different products, with different trade levels for the same goods, so you can get two goods coming to market bearing drastically different sales tax amounts.

As tax practitioners, we wander around to our clients persuading them to set up marketing companies because they can reduce tax. To me, it seems very distasteful that one person, while reorganizing his affairs, can reduce his

tax base while another taxpayer who perhaps does not have the money to spend on tax advice or maybe is not as sophisticated does not have that opportunity.

Provincial sales taxes generally tend to be a little fairer because they are applied at the retail level, but even here there is something insidious about provinces that not only tax the selling price but also tax inputs. For a lot of provinces, taxation of inputs represents 25 to 30 per cent of retail sales tax revenue. By that, what I mean is that not only do you tax a supermarket's sales of whatever we tax in Ontario, say salted peanuts, we also tax the cash registers, the counters, whatever. In effect, you get a double taxation occurring.

It is a combination of taxes that is unique. It is unique because Canada is the only country in the world that has two parallel taxes. You either have taxes by the states or provinces or you have a federal tax.

My position on this VAT is that you need one rate across Canada on a common base, with the provinces getting together and figuring out how to allocate the revenues. Having 12 rates is just suicide. By 12 rates, I am saying 10 provinces and the two territories, one of which could become a province some time.

A common base is almost automatic, with as few exclusions as possible. I recognize that both the Liberal Party and the NDP federally said, "You've got to exclude basic groceries, prescriptions and other necessities." And as more lobby groups come up--if you followed the election, they promised something to the dentists and then the lawyers came up and said, "Cheap legal advice is a constitutional right to everybody, so don't tack the 10 per cent on to our low fees." As groups come up, and you hear about the housing industry, each group is going to come in front of you and say, "We want to be excluded," and what you are going to have is a bureaucratic nightmare.

It is interesting to state that in New Zealand, which just put in a value added tax, the New Zealand government, which I would say is probably to the left of the NDP--somebody could argue about that--decided not to exclude anything. They tax basic groceries. However, right from the start they basically put cash in the hands of lower-income people to ensure that when they went to the supermarket they would have the additional funds to pay for the groceries. Granted, it is a largely agrarian economy, probably one tenth the size in area and in population, but it is indicative that they looked at it and found that the simpler you keep the system, the less work for us.

The other side of it is, make it as complicated as possible. I will be able to support my ex-wife, my new wife, the dogs and everybody, because once you put exclusions and special rules in for individuals, for groups, we just make a bigger hole, and it gets bigger and bigger and we are back into court and you have a larger and larger administration. That is all that I want to say. Ask as many questions as you want.

My involvement, just so you know, for the Blenkarn committee was to teach its members all there was to know about VAT before they went on their boondoggle to New Zealand. I was not taken, that is why I am so bitter about it.

The Acting Chairman (Mr. Kozyra): We couldn't tell.

Mr. Friedman: No, you couldn't.

We went on for four days. They had questions. The one thing about VAT is it is so simple that it gets confusing; it is such a simple concept that it is very difficult to really understand. We spent time with our own tax practitioners, we spent time with heads of corporations, and they have some real problems with understanding why you want it and why the middle man would not be upset by this tax. That is all I will say. I will be happy to answer almost any question.

Mr. McCague: You are probably going to have to assume that we are not tax experts here, so the questions may be rather simple. You started off by saying that the federal tax was an unfair tax, and I thought you said people were, for instance, manufacturing in other jurisdictions to avoid tax.

Mr. Friedman: Yes.

Mr. McCague: I do not understand that.

Mr. Friedman: Let's take a simple example. Say somebody was looking at a widget or somebody was saying the big market now is fuzz shavers so you can shave the fuzz off your shirts. You can knock those off in Japan, bring them in in container loads, package them in Canada. You, being the manufacturer, will pay federal sales tax on your selling price.

Let's say you bring these things in for 50 cents apiece. You hope to promote it like crazy, want to put a warranty on it, whatever. Ultimately you add 50 cents worth of cost and sell it to the retailer for $1.25. You would pay federal sales tax on $1.25 times 12 per cent. You come and see me and I say to you, why do you want to package it in Canada? Why not package it in Japan or in fact in North Tonawanda, New York? Bring it into North Tonawanda for 50 cents, stick a nickel's worth of packaging on it, bring it across the border. When you bring finished goods across the border, you pay tax on 55 cents and not on $1.25. You have now halved or more than halved your federal sales tax liability.

What you do is you end up not paying federal sales tax on those additional components, like warranty, marketing advertising, whatever. As a Canadian citizen, I am sad. It is my job to make sure that clients within the law pay as little tax as possible. When somebody from Raleigh, North Carolina, comes in and says, "I want to package kitty litter in Canada"—probably a bad example, because our tax is being moved to the wholesale level—you say, "Wait a second. If you do it across the border within striking distance of Canada"—and it becomes easier, by the way, with free trade—"then why do it in Canada? You save federal sales tax on that additional component."

The beauty of that is it is irrelevant because ultimately the tax is on the selling price to the consumer. To make it a little bit more complicated, instead of going offshore, you can say to that company: "Listen, you're selling that for $1.25. Bring it into Canada for the same 50 cents. Set up a manufacturing company separate from the marketing company. Have one company sell to the other for 55 cents and you get to the same result."

The Department of National Revenue has been to court. Vanguard Coating and Chemicals Ltd., if anybody is interested, a paint company in British Columbia basically did just that. They were upset that other companies were importing paint and paying tax on cost, so they said, "Let's set up a separate company to do this for us." Revenue attacked them. It went to court. It took four or five years. They have gone both ways. Revenue has won once and Vanguard has won once. In the meantime the government has changed the law.

But marketing companies appear to be things they cannot fight, either. And that is fine. At one point Revenue was telling people, "If you're unhappy with the base, set up your own marketing company." But somebody who is manufacturing out of his garage or manufacturing in a small plant cannot possibly pay for two sets of books, invoicing each other, pricing to each other because it cannot be a sham. You actually set up two separate companies.

The whole point of this is basically to reduce your tax base. The bucks are big. Federal sales tax raises approximately 50 per cent more money for the federal government than corporate income taxes. You do not hear a lot about it because it is buried. This is why I was hesitant to talk to you before the election, because if you saw the press you saw, "Ontario would have 18 per cent tax."

If you go to buy a car today for $20,000, you have $1,600 of provincial sales tax, but most likely you also have $2,000 federal sales tax, $100 for the air conditioner and 10 cents for a lighter. That is a sin tax, by the way, for smokers. Every lighter in Canada attracts a 10-cent excise tax.

Mr. McCague: Can you buy a car without one?

Mr. Friedman: It is pretty hard, and you will not get the 10-cent reduction.

So you add up the $2,000, plus $100, plus $800, and lo and behold, you have a tax of 18 or 19 per cent. So it is here now, but part of it is buried. So I think it is unfair of the press to say that all of a sudden we are going to have 18 to 20 per cent taxes. We have it right now.

Mr. McCague: We even had an example the other day. The Board of Trade of Metropolitan Toronto was here. On that example, we got up to a tax of almost 25 per cent. The example used was a Bell telephone bill.

Mr. Friedman: That is because Bell pays tax on its equipment. There is a tax on the telecommunications, then you guys come in and tax all of that stuff.

Mr. McCague: It was estimated in that case that the tax was 25 per cent.

Mr. Friedman: Yes. I think, to be fair to the other side, clothing does not attract taxes in Canada. Basic groceries do not. Housing attracts a very small tax because it is only on building material. That is where the hit is going to be. I predict the federal government will probably hit you with a tax somewhere in 1991-92. The hit will be in the supermarket, all the items that right now do not attract a tax.

The other bad side of it is there is no power. I do not think the governments have any power to force a manufacturer who used to pay 12 per cent federal sales tax to pass the benefit on to the middleman, once the tax is basically taken off. Some manufacturers are saying, "We've been holding back price increases so once you take the federal sales tax away...."

It is the same thing on inputs. All of a sudden the computers and the tables and desks and papers will no longer attract federal sales tax. It depends on competition. I am not an economist. The more competitive the industry, the more likely the tax will be passed on.

1020

The Vice-Chairman: Mr. Cleary, and then I have Mr. Morin-Strom.

Mr. Cleary: My question has been partially answered already, but you had said that we are taxed at five different rates?

Mr.Friedman: Yes, you have zero per cent on basic groceries, eight per cent on construction materials, 12 per cent as a general rate, 18 per cent on sin goods like alcohol and tobacco and 22 per cent on jewellery and watches--do not ask me why. I guess at one time it was a sin to wear jewellery and watches. It all goes back 50 or 60 years and it has just been billed.

There are also strange excise taxes on playing cards, as I mentioned, and 10 cents on each lighter--you name it. There is just a wealth of taxes and we could sit here all morning and tell you about the half-dozen different taxes on the bottle of rye that you might buy for Christmas. We are very heavily taxed, and unfortunately most of those taxes are buried. The only tax that is open and shown is the retail sales tax, when you go into a department store and buy some goods.

But when you go and buy your watch, for example, what you do not realize is that $50 watch probably has $10 worth of federal sales and excise taxes already in it. Sorry, $50 is a bad number because the tax on watches only comes over $50, the extra 10 per cent excise tax.

The Vice-Chairman: Have you any other questions, John?

Mr. Cleary: No.

Mr. Morin-Strom: Thank you, Mr. Friedman. One of the things that you have brought up that is of concern to myself is your heavy push that we have to have one tax right across Canada. Are you suggesting that it should just be a federal tax and the provinces should maintain their sales taxes? How are you going to give provinces the right to set their own sales tax rights?

Mr. Friedman: You are not. I will go through an example.

Mr. Morin-Strom: You are suggesting that. I am saying that provinces, in my view, are not likely to give up that right.

Mr. Friedman: That is my view, as well. I am saying that a joint tax--

Mr. Morin-Strom: How are you going to resolve that?

Mr. Friedman: How you resolve that is that the provinces do not go in. I am speaking for myself. I think I will be on old age pension before you see a joint provincial-federal tax. Because you are right; Quebec says: "Hey, right now we are not taxing furniture and there is no tax on accommodation. We have some policy we can set. We can decide." One of the best-kept secrets in Ontario is that, if you are from out of province, you can get a refund on your sales tax on your hotel bills. But it is our incentive. We do that.

We decided that if you buy one doughnut you will not be taxed but if you buy half a dozen you will be taxed. But we set that--"we" being Ontario. The problem is that when you--and this is hard for me even to explain to my own

fellow practitioners. I know I and Irene David from Clarkson Gordon, who spoke to you with the Board of Trade of Metropolitan Toronto, have had these debates for a long period of time. I think she is probably now finally convinced.

Let's take an example with 12 rates. We would assume that we would have 12 rates across Canada. I consider Canadian business very mobile. I have more frequent-flyer points than I can use. So let's say, for example, I go out to Vancouver and I stop off because I have some business in Moose Jaw, Saskatchewan. I get on a plane and fly out to Moose Jaw. I stop off, do my business and then fly to British Columbia. My home office is in Toronto. At the end of the month, I put in my expense report.

BC, let's say, has a 15 per cent joint rate; Saskatchewan has a 17 per cent joint rate; Ontario has, for simplicity, a 20 per cent joint rate. When I put in that expense chit, unless I identify my taxicab receipts, my hotel bills and my meals as originating in one of the provinces on my expense sheet—because I am going to have 12 different columns—the way the system works is, as a business I get credit for any tax on purchases. If I muddled it all up and sent it in and said, "Ontario, give me a credit," Ontario may end up giving credit for taxes collected by BC or Saskatchewan.

So unless you have that one single rate, you are going to have to have auditors not only making sure that the tax has been collected, but making sure that the province that collected taxes on inputs the manufacturers, wholesalers and retailers actually ended up giving the refund when the credit was due. Unless you really understand the tax, the whole tax works by paying tax, getting a credit for all your purchases at all levels except the consumer level. If you have 12 separate rates, you are going to have to identify for each purchase which province you made that purchase in, and the purchases are everything from taxicabs to shoeshines, services, you name it. That is the first part.

The second part is I took a plane. The plane stopped off in Saskatchewan; it stopped off in Vancouver. It started in Ontario. I paid $1,100 for the plane ticket plus $110 tax. Who gets the tax? Which province gets the tax? And does it matter if the plane stops off in Saskatchewan to drop off passengers or because some 767s run out of fuel? Does it matter what happens, whether it is a direct flight, nonstop, where it goes?

While I am in Vancouver, I am short of cash. So instead of using my Canadian Imperial Bank of Commerce instant because I cannot find one of their instant tellers, I go to a Bank of Montreal. The Bank of Montreal happens to process my transaction in Manitoba and charges the Bank of Commerce in Ontario $1 for service charge. There is a 10-cent tax on it. Which province gets the tax—where the transaction was processed, where I took the money out or where my account is? If I am in Ottawa and my account is in Hull, is that going to matter?

All these problems are solvable, but once you have 12 rates it becomes like a juggler with 12 different balls. In 1992, the European Community is going to this economic union and, if you read a lot of the literature, one of their biggest concerns is they have 40 rates of value added tax and they do not know how to mesh these 40 rates. Ours is a little bit simpler. We are going to have 12 rates, perhaps. I do not expect you to immediately understand that, but it is just the paperwork.

We have clients now, I think fairly sophisticated clients, where you go in and they give you a box full of paper and say, "You figure out what I owe

in taxes." Now you are going to go in there and you say: "Well, you took a business trip. You had some meals." At least at Peat Marwick, if you spend under so many dollars, if you take a cab from the airport, unlike the government, we do not have to have a chit for every last item. But under this system, you are going to have to collect paper.

That is our side of it. That is the kind of accounting side of it. The other side of it is the government.

If you have one authority—and I have not said whether the provinces administer this, or the federal government or, as they have suggested, kind of a joint group—you are going to have to audit this stuff. If it is anything like corporate income taxes, you have a federal auditor come in to look at your books and, a year later, you have an Ontario auditor coming in to make sure that the provincial allocation is reasonable. Is that what we are going to do as well, to have one authority and then Saskatchewan says, "Well, I think we are giving more credits than we have actually ever collected so maybe we should have our own auditors make sure that this independent committee is doing its job properly"?

With one rate, you do not get into these concerns. You hand it to some economist and you say to the economist, "Whatever you want to do it on," and I am not sure what it is done you. I believe West Germany has that system where it is allocated back to the state.

Ms. Hart: You said that you did not think in your working lifetime anyway that we would have these complexities resolved. Just in your talking about it, it impresses itself on me that that is going to create a great deal of pressure on provincial governments to go in with the federal government to have one rate because every business in the province is going to be screaming about administrative complexity.

Mr. Friedman: Well, either one rate, or to carry on the way we have done it until now. We will bury a federal VAT at the retail level and the provinces can carry on imposing their provincial sales tax.

We had a joint value added tax conference with a French university just to compare notes, at which I think the assistant deputy minister from Ontario spoke as well. I think it became very clear that one way to do it would be to have a joint VAT but also leave the provinces with power to add one or two points—it may be on hotel accommodation or something else—not to take all policy away, but for the main amount of cash, that one body would collect it.

1030

I agree with you. I have clients who complain they pay the Ontario effective minimum wage in Toronto, $7, $8 or $9 an hour, and they cannot get the cashier to keep track of taxable and nontaxable items. If you have two shown taxes, you are asking him to take all the combinations and permutations.

It is easy enough for people to say, "Listen, we have fancy computers that can keep track of taxes," but if you go into the thousands of small retailers, they basically have charts; if in doubt, you randomly collect or do not collect the tax.

It is a complexity, but I think the gentleman on this side alluded to the fact that there is a real fear that the Constitution only allows the

provinces to tax directly and if the feds go into this, then you have taken away some of their policy-making power.

It is funny because most of my clients get into trouble because they assume that all provinces are as generous as Ontario and Quebec in granting exemption for machinery and equipment for production, but if you go west of Ontario you do not get that. There is not that much manufacturing west of Ontario but, commonly, large corporations make the mistake of buying equipment exempt across Canada, because they assume the list of exemptions is the same across Canada.

Nothing can be further from the truth. In fact, provinces take pride in having their sales tax a little different, that their set of exemptions or things are a little bit different from every other province.

Mr. Morin-Strom: I think it is recognized that Ontario is probably the key player in terms of any possibility of a joint tax, Canada-wide. Ontario's position on that would be the most important factor in terms of provincial input. What would happen if Ontario and Canada set a rate and we ended up with a number of provinces opting in and other provinces opting out? Would that create exactly the same complications you are talking about?

Mr. Friedman: The federal government had said it is prepared to go with only a few provinces opting in, because in the provinces where you do not have provincial participation, you set the rate at zero for the provincial portion.

Mr. Morin-Strom: You were saying before that all provinces would have to have the same rate or else it would cause complications.

Mr. Friedman: Well, you would have complications. For example, there is a lot of travel between Vancouver and Toronto, and let's say British Columbia opts out. BC is very aggressive in its sales tax; it will tax anything that moves. Let's say they say: "Look, we are very successful. We have 10 per cent unemployment so we can hire ourselves lots of auditors. We will stay with our own tax. Ontario, if you want to go with the feds, fine."

So you set a 20 per cent rate. I go out to BC on a business trip. I have $3,000 in expenses and because I am confused on my return, I take a credit for my purchases in BC on my monthly Ontario sales tax return, the joint federal-Ontario. Ontario is now given a credit for my purchases in BC and the only way you are ever going to find out about that is to do intensive testing.

My concern, if only a few provinces or one or two provinces go in, is that you still have a problem of how you keep track of when you did or did not pay provincial sales tax.

Mr. Morin-Strom: Our committee was in Europe in September, I guess it was. One of the discussions certainly was related to the 1992 proposals and the problems they are foreseeing in terms of the VAT.

Mr. Friedman: Yes.

Mr. Morin-Strom: They do not seem to be suggesting one uniform VAT. The VAT they seem to be hoping for is that they can get a range of about five percentage points. I recall something like 14 to 19 per cent; I do not know if that is exactly what it is. They, in fact, used as an illustration the states in the United States, which you might say is a free trade zone internally.

Mr. Friedman: Yes.

Mr. Morin-Strom: But there are different sales taxes from state to state. Their argument was that there is not much dislocation of industry within the United States as long as states have sales taxes that are fairly close. If people do a lot of going from New York into New Jersey to make their purchases, for example, in order to get a lower tax, they are saying they feel that if they could keep it within a range of five per cent or less, the distortions in purchasing patterns and the need to have customs monitored across the state lines, which obviously the United States does not have in terms of those sales tax inequities, would not be a problem.

Mr. Friedman: There is one point missed there: that is a credit system; it works on credit. In the state system, if I go from New York to New Jersey, for example, and I take a client out for lunch and am charged the New Jersey sales tax, when I go back to New York I cannot get a credit for it. I have just been taxed on an input. Under a VAT, when I file my monthly return, because it is a purchase of the business I am looking for credit from somebody, and that is the question. There was an article in the Australian tax journal by a chap by the name of Knossen, a Danish professor who has looked at this stuff, comparing retail sales taxes and VAT. I will be happy to send it along. It is written so that it is quite easy to read and it gets into this whole area of how to keep track of credits.

I seem to remember what he said is that each corporation would have to have different buckets for purchases in different countries or states. It is also an interesting article because it does get into administration problems, fraud and noncollection of taxes, which are a concern. I am just throwing that out because it is going to be another concern. That is the problem, because in the US, as in Ontario, if I am going out to Vancouver next week for this tax foundation conference and I wine and dine clients, under a VAT system every dollar that I spend is going to be creditable to Peat Marwick. The question becomes, if British Columbia has collected that tax, who is going to give me back the credit? Are you going to require me to keep track of my expenditures?

I have enough trouble getting my staff to file a monthly expense report, let alone having them keep track of it in 12 or 15 columns. It is going to get worse; the salesman who works out of his briefcase and goes across the country selling lint removers or something is going to have to keep track of all this stuff. I think, from talking to the French, anyway, at this conference, they tend to have their heads in the sand. They hope this problem is not major. When talking to them privately, there are some concerns over it. There are several articles lately that have alluded to the fact that integration of VATs may be one of the more complicated issues facing them.

It is good because it is almost like having your own ant farm that you can watch. You watch the European Community as your ant farm. The question is whether 1992 is too late for Canada. My view, and the view of most tax practitioners, is that you will see a proposal; Mulroney will have a proposal on the table next March. He made the mistake once of not introducing this tax three years ago; he is not going to make it twice. You have enough time for the tax to be put in place and for him again to stand up and be counted.

In New Zealand there was an uproar; in Japan there was an uproar. Both countries have gone ahead with it. It is interesting to note that New Zealand put it in two and a half years ago. The 10 per cent tax is now 12.5 per cent. That is one of my fears. I call it a rate creep. Once you have a tax in place,

it is a lot easier for you guys to raise the rates than to try to control spending.

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Mr. Mackenzie: It may not be totally fair, and it is a little different, but I am just wondering if, with your knowledge of it and in looking at it, whether or not you have thought at all or have any ideas as to the basic fairness of it in terms of the various income groups in this country? Do you have any assessment or any gut feeling on it?

Mr. Friedman: Yes. I think it would be fair—I do not know how you do that; we talk about credits—if you ensure that low-income people are reimbursed for the additional tax burden. The additional tax burden is not just the extra tax. It is also the fact that some manufacturers have chosen not to pass along the fact that they no longer have to pay federal sales tax.

Not only do you have to reimburse, but you have to do it fast enough. I will use an example: Somebody goes to Loblaws, has $100 a week to spend for groceries. If on that fateful January morning when the value added tax starts, it will only buy $90 worth of groceries, assuming that there are no exclusions, what are they going to do? Are they going to buy 10 per cent fewer groceries? But if you give them the extra $10 to pay for the tax right up front, they you have the solution.

That is what New Zealand did. They had it right up front. I guess it is a lot easier to do it there to ensure that people would not suffer. The more cynical among us would say, "If you send cheques to everybody, they are going to go down to the beer store, buy extra cigarettes, or whatever." I would think that over time that would not happen.

The easiest way, of course, and my income tax brethren get upset with me, is to pay the money to everybody up front and take it back in taxes later on, not unlike family allowances.

Mr. Mackenzie: In effect what you are saying, if I can just turn it about a bit, is that yes, there is an unfairness but there are mechanisms, which is the argument we have usually been given, to handle it through credits or whatever method.

Mr. Friedman: This confuses me. I will use an example. I used to have this argument with Michael Cassidy. I think even he got confused after a while. If you exclude groceries and do not charge tax on it so that they come tax free, and if I am a low-income earner and all I can afford is macaroni and cheese at two for $1, by not taxing me on that 50-cent purchase, I save five cents in taxes.

But one of you lives in Rosedale and says: "God, I wouldn't eat that stuff with the powder and the milk. I will get the best frozen macaroni and cheese I can buy." It is $5 a package. If you do not tax that, that person has now saved 50 cents in tax.

I have problems reconciling that. On the one hand, by excluding groceries, you are not punishing the low-income people. But you are are also giving a benefit to people. Economists can explain that better somehow. That is why, I guess, New Zealand came to the conclusion that it was better to tax everything and somehow add that money back.

Mr. Mackenzie: It seems to me to be a bit of a backhanded argument for progressive income tax because it is true that the person who buys that $5 macaroni can afford it. The people who are buying the two Kraft dinners for 50 cents each, or some damned thing to eat, are in a position where they simply have to watch the pennies a hell of a lot closer than the others.

Mr. Friedman: But if the person buying the $5 macaroni and cheese can afford it, why not charge him the 50 cents tax?

Mr. Mackenzie: It does mean that we are in the business, then, of setting up levels or almost a means-test type of approach of how you work out the credits, does it not?

Mr. Friedman: Yes. That is really the only way to do it. It is not a perfect system. I, for one, do not have much faith in it, but again, I am a lowly bean counter who does not know about those things. What I say is only intuitive.

The Vice-Chairman: When I was president of the Ontario Federation of Agriculture, the government used to come up with all nice acronyms for different programs, OFFIRR, OFA, FOCAP, whatever. One April 1, I came up with an acronym for Ontario food only operating loan, better known as OFOOL. The concept basically was that you give people tax credits for buying Ontario-only product.

Maybe it was not too far off the mark two and a half or three years ago, from what you are telling me. Take an average family that maybe spends $100 per week and you are looking at a $5,000 per year bill. The tax on that would be at, say, 20 per cent on food, if you put food into that. That would be $1,000, roughly. At the beginning of the year, do you advance the people $1,000 to cover their purchases from last year? That is one way to do it.

Mr. Friedman: No, you would want to do it at the beginning. You assume that people will figure out that, "Yes, the tax has gone up, but we have sent you cheques to cover that." I guess I am afraid of the bureaucratic nightmare when you have to send that out to millions of families.

Mr. Mackenzie: You are never going to see that.

The Vice-Chairman: I know. Mr. McCague and then Mr. Haggerty.

Mr. McCague: I will pass for now. Put me down for housing.

Mr. Haggerty: Just following the recent election decision of the Canadian people and the matter that now free trade will be going forward, I am thinking about some of the discussions and observations taken in our committee as we visited European communities and information passed on to the committee dealing with free trade and the proposed second stage of Wilson's taxes.

We are well aware that in the free trade movement there will be tariff fees removed and this is going to cause a deficit, you might say, in the federal government tax revenues. It is estimated, I think, at over $2.25 million. In the free trade agreement, we can look to the future and say, yes, we can see by certain sections of the act that we are going to be bringing in perhaps a large amount of processed foods from the United States.

In the proposed second stage of the tax there is a tax on food. We talk about the new proposals presented in New Zealand. You just mentioned they

apply the sales tax on all consumer goods and then there is a tax refund or rebate given back to the low-income families.

Perhaps reading between the lines, I can only assume that eventually we are going to have an influx of American agricultural products coming into Canada and it is going to undermine our existing agricultural marketing boards. Eventually, I see that food will be taxed, on all goods coming in from the United States. Regardless of whether we like it or not, that is the way it is going to be. Last week it was advertised in an American newspaper in Buffalo that you can buy turkey at 38 cents a pound. You have to buy $15 worth of other groceries. That is 38 cents a pound, and you are paying maybe $1.38 a pound here.

I look at that and I can see that in this whole free trade agreement, this is one of the areas where the taxpayer is going to have to be paying additional taxes for the benefit of that.

The Vice-Chairman: Do you want to comment on that?

Mr. Friedman: The tax is neutral, though. If you tax food, you tax--

Mr. Haggerty: No tax is neutral.

Mr. Friedman: What I am saying is, whether the turkey comes from Hooker Chemical in Niagara Falls, New York, or it comes from wherever in Ontario, it is going to bear tax.

The Vice-Chairman: Mr. Friedman, can you just lean forward a little more so that they can pick you up? We want to record what you are saying for posterity.

Mr. Friedman: I did not want the last comment to be heard.

The value added tax is neutral, but if your point is that they are starting from a lower base already, then it is well taken.

Mr. Haggerty: That is right.

Mr. Friedman: Obviously, it is an ad valorem tax; it is not a per unit tax. The only way it would be fair is if you had $2 per head charged on each turkey. Obviously, we could not do that, but yes, given that you are starting from a lower base, that advantage is carried through. If you do not tax basic groceries, then it is irrelevant.

1050

Mr. Haggerty: That is still on the discussion papers in the second stage, I think, and they have not actually withdrawn it.

Mr. Friedman: They have come out pretty strongly in the records that basic groceries and prescription drugs--

The Vice-Chairman: And dental work.

Mr. Friedman: Well, the dentists are a little bit confused on this issue. I think they might have made the wrong move, because they have asked for exemption and exemption is not the same as tax-free status. It is very different, and I do not know if you want to get into that, but people throw

around that word "exempt" and exempt has a very undesirable result under VAT. I do not know; do you want me to spend two minutes on that?

The Vice-Chairman: Maybe after Mr. McCague's question.

Mr. Haggerty: Just following my question, in the finance and economic affairs committee report, and this is from Ottawa, the recommendations said: "The committee makes no recommendations with respect to taxing such necessities as food. The committee recommends, however, that if necessities are taxed, it should only be on a condition that low- and lower-middle-income groups are fully and immediately compensated for the burden" that they fear in this tax.

In other words, it is still on the table, and I sense that they will be heading that way, that all food will be taxed. My own personal view is that I would resent that when you start to have to tax food when there are other fields out there, other areas where taxes can be raised.

Mr. Friedman: Where do you cut the line? What is food and what is not food? That is the problem.

Mr. Haggerty: Well, I imagine anything that is--food is food, is it not? I am not going to include beer.

Ms. Hart: Chocolates?

Mr. Haggerty: Well, maybe chocolates are--

Mr. Friedman: I will give you a good example, because I think there will be a tariff board case on this. There is no federal sales tax on yoghurt; there is no federal sales tax on raisins; yet there is on yoghurt-covered raisins.

Mr. Haggerty: I understand that is included in a free trade agreement. They can bring all kinds of that in.

Mr. Friedman: No, no, the point is that right now you tax some snack foods. My kids think potato chips are the ultimate health food. Potato chips and candy bars are taxed, but if you package the candy bars in the form of a biscuit, it is called a cookie and it is exempt. Those are the problems you get into. Unless you have a line, unless you tax anything that is edible, or exclude everything, then where do you stop? That is really a concern, because we have people arguing that if you put some nutrients in toothpaste, for example, that is edible and perhaps that should fall under the exclusion as well.

Ms. Hart: I once convinced a Court of Appeal that beer is a foodstuff. You said you would leave beer out. Well, there is a case on record that says beer is food.

Mr. Haggerty: Yes, stout is.

Mr. Friedman: Calories, carbohydrates, stimulants, the whole works; what keeps you going.

Mr. McCague: Maybe you could just tell us what you would suggest Ottawa do in order that there would not be provincial sales taxes?

Mr. Friedman: Ottawa has been discussing this with the provinces. I think they have been discussing it for, what, 15 months, 18 months now. Michael Sabia from the Department of Finance has been visiting all of the provinces.

I have never been party to those discussions and perhaps my concerns are not the same as their concerns. I guess they are concerned about leakage. They are concerned about revenue-sharing on transportation, on services. Services are a big area.

I am in an accounting firm, and this is a good example, just to throw out another example. You come to us and you want us to do your estate returns or your personal tax returns. If the rates vary from 25 per cent in Newfoundland to 15 per cent in BC, which one of our offices would you ask to prepare your tax return?

In the ages of computers and terminals and instant communications, you can do things, you can get things done anywhere in Canada, get it done out of Ontario yet it seems as if it is coming out of BC. So I think there are some problems on revenue sharing, on freight. Freight would be a dollar amount--freight, transportation. The banks, for example, are another concern. Canada would be the only country in the world that would apply value added taxes, or they are proposing applying it, to financial institutions. It is very complicated, and it is not clear how it would work.

Mr. McCague: I guess I was more interested in your personal opinion on the scenario that would persuade the provinces to drop their provincial sales tax--and from the federal perspective. What would you do if you wanted to get one tax rate right across Canada?

Mr. Friedman: I am not sure. It is a little bit an unfair question because I am not an economist. I would still go with one rate and try to get the provinces to settle on a common base, if that is possible, and some way of revenue sharing. You share revenues right now in some areas. Why cannot you do it in this area?

I see the concerns of provinces if you are taking away one of the few policy tools of the province by putting this in a central pool. It is not used in a lot of places. That is why I am a realist and say, you are never going to have an NST or national sales tax. You will have a federal VAT. You might have some provinces without the funding to have their own efficient system opt in, but generally I see us having two separate taxes.

Mr. McCague: So then your advice is that we not talk about a national sales tax in the context that--I think people that understand think it is one tax federally levied--and we start talking about the combination of VAT and provincial sales tax.

Mr. Friedman: Yes, I have some real concerns. We have not talked about breaking the tax out, but I am sure all of you would have concerns if you had to go to the supermarket and have the cash register ring up a 20 per cent tax. Granted, if you have been in Europe, you know that to rent a car in France, for example, cost 33 per cent. Now they have dropped it back to a more reasonable 28 per cent. But the rates do get up there--15, 20 per cent. The taxes are all buried at the retail level.

There is something in Canada: You strike a chord when you tell people, "Well, we are going to bury these taxes." They say, "No, no, in Canada we

don't do those things." You remind them that taxes are buried, that when you go and buy beer or liquor in the liquor store the taxes are buried, that when you pump gasoline in your car taxes are buried or when you buy appliances, and that is the only way it will work.

Obviously the tax must be broken out at other trade levels, because the purchaser is going to get a credit, but the issue is moot there because if you get a credit, it is irrelevant what the tax is. If you are a wholesaler and I sell you something for $100 plus $50 tax, if you know you are going to get that $50 tax back immediately, you do not care about it. It is only at the retail level, where if I charge you $100 plus $20, you are going to say, "Where is this government going to? What is happening?" You have got a 20 per cent tax, which you already have, but you do not know about it.

The Vice-Chairman: Could you maybe go back? You were talking a little earlier about explaining the difference between exemption versus being tax free and we were talking about the dentists.

Mr. Friedman: What tax free means is that there is no tax anywhere along the stream. So you look at a dentist. What would a dentist purchase? A dentist would buy the chair. Last time I went to a dentist, he had 100 tapes that I could listen to while he was destroying my mouth. If he has got an accountant, the tapes, his services, utility bills, whatever, would be subject to tax.

Under a tax-free system, he, like the suppliers before him, would get a credit, so that there would be no tax on his inputs and no tax on his outputs. Under an exempt system, you are not required to charge tax on your sales, but you do not get a credit for your inputs.

1100

So all of a sudden the dentists say: "We want to be exempt." What that means is that, effective the date of this new tax, the chair they bought for $20,000 may now cost $22,000. Under a tax-free system, they would get the $2,000 back immediately; under an exempt system, they now have to take that tax and somehow pass that tax on in their fees.

Under a taxable system, at least they could blame the govenment for the tax. Under an exempt system, it is buried in their costs. They are not required to break it out. That is a big difference.

This is one of the concerns for an organization like the Ministry of Transportation in Ontario. That is a good example. Ontario may spend--I do not know; I will take a figure--$500 million on roadmaking in a year. If you make Ontario exempt, the Ministry of Transportation then would have to pay tax on all the contract work done for it, so it may have to pay $50 million in tax.

What that encourages, and governments have said they might do this, is that you start building your own roads, because in that case you would only be subject to tax on your purchases. The name of the game, then, is to integrate as much as possible so you have as little tax as possible. That is a real concern. The difference is that tax-free is completely devoid of tax; exempt is that only the last stage is exempt.

Mr. Pelissero: Just following that line of thinking, the municipalities, the fire departments, the police departments want to be

tax-free rather than tax-exempt. Again, it comes back to how you police what the end usage of what they are buying is going to be.

Mr. Friedman: Sure. What you are suggesting is that a fireman says: "Listen, we need a TV set for the firehall, which is tax-free. Why don't you buy three of them just in case the first two break down, and in the meantime we will have them in our homes?" That happens. I guess the beauty of the exempt system for municipalities and for nonprofit organizations is that you do not have to worry about the purchases, the taxes being collected. Sure, on the revenues, there is no collection.

There is a problem with exemption, though, because some municipalities might sell their own water, their own hydro, some of which things are taxable. What you are then going to have to do is start allocating on your inputs between taxable and exempt goods, because on taxable goods you get credits and on exempt goods you do not.

In Europe, they do get into allocations. It was unusual in New Zealand; they never got into it. In Toronto, you may have some buildings that are half apartments, half office buildings. The apartment portion, it is suggested, would be exempt; you would not tax apartment rents. The office leases are taxable. So you have a building owner who has a big building, where he is going to get credit for part of the inputs. How is that going to be done? Is it going to be done on total revenue, on total square footage, on total purchase for one or the other?

You get into those kinds of situations. You have three ways. Completely taxable is the easiest, because you get a credit for all your purchases as long as you charge tax on your sales. You have tax-free, where you get credits all the way along but you do not charge taxes on your sales. Finally, you have exempt, which is kind of in the middle, which is the worst place to be, where you are not required to charge tax on your sales but neither are your purchases relieved.

It is unfair. In teaching our own staff about this, their eyes kind of become glassy. If you feel this makes little sense at all, you have to kind of live with it and push pencils around and figure it out.

You used a good example of why exemption is good in certain situations. You do not have to police it. That is the beauty of a value added tax. I am surprised nobody has asked, "Why do we not just have a retail sales tax, use a bunch of certificates and make sure all middle men get exemptions?" Under a VAT, you do not care whether you are selling to a consumer or a middle man, you charge tax to everybody. The middle person will take care to ensure that he gets a credit. So it works; it basically takes care of itself. You do not have to identify the consumer.

To use an example, if I, as an accountant, need more paper and I go into a stationery store, under a VAT system I do not have to use a certificate. I buy my stationery, I get charged VAT on it, I put in my expense report and the firm I work for gets a credit. If I go in as a consumer and buy the same paper, the tax sticks. That is the beauty of the system. There are no certificates, no exemptions, it runs itself.

Mr. Haggerty: Is there any possibility of cascading?

Mr. Friedman: The only possibility of cascading is if the middle person, the retailer or wholesaler forgets to claim credits. I assure you they

will not forget to claim credits. In fact, one of my large concerns is that you would have, in the first few years, what I call a son of scientific research tax credit.

One of the big problems in Europe, and I do not know if you got into it, was artificial invoices, where you get a supplier to send you an invoice for $10 million. When you are building a $100-million plant, another $10 million is nothing. You get a claim back automatically for $1 million in VAT and you are sitting in Rio de Janeiro by the time they catch up with you.

I think most Canadians would not do that; I have to say that. The system is such that unless you have an audit of both sides—— Well, you say, "We could send out a bunch of auditors."

Under the current system, since they are a client, we will look at Honda. Honda built a $200-million auto plant in Alliston. They can buy all their manufacturing and processing federal and provincial sales tax exempt. That is an incentive to locate in Canada, to locate in Ontario.

Under this new scheme, let us assume there were a 15 per cent tax in Ontario. That plant would then cost $230 million. If you had no vehicle to give them back that $30 million right away, it is now costing them the carrying costs on that $30 million.

In those cases the credits must be almost instantaneous. In Norway you can get a credit on that kind of thing in as little time as one week. I cannot see the system's working that easily in Canada. We have a large bureaucracy and I have some real problems, but you have to be prepared to honour refunds almost immediately for the system to work, for it not to be punitive.

I remember sitting with some revenue people. Do not quote me on this, but they were looking to hire 3,000 to 4,000 chartered accountants between the time they announced this tax and the implementation date. I said, "I cannot find three CAs in Toronto let alone 3,000 CAs."

That may be one of the problems, the sophistication of administering this plan. It looks as if excise would probably not run the tax. They have people used to a 60-year-old tax. There is some suggestion that Revenue Canada taxation would administer this. They tend to be probably a little bit more sophisticated and have hired more talented help than excise has.

I think it is very important, and I am concerned, that the governments would be out-thought on these issues once the tax comes in, unless they are prepared to spend time and money on sophisticated help in setting this system up. Otherwise you are going to see legislation, you are going to see holes all over the place. That is why my first statement was, the fewer exceptions the more common the base, the easier the tax and the easier it is to administer.

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Mr. Pelissero: From an administration point of view you are probably right, but recognizing politicians and politics for what they are in terms of perception, you identified that we would be the only country where we would have a value added tax structure for financial institutions. Knowing the lobby they have, they may be fighting for an exemption. It would be very difficult to try to sell a tax system——even if "exemption" is not the correct terminology——that exempts financial institutions but charges for food.

You can see the headlines just blazing across the countryside. Whether it is a good reason or a bad reason, the perception becomes reality as soon as this gets out. That is why, as you say, you did not want to appear before the committee. That is where Don Blenkarn made some statements.

It comes back to whether it is going to be revenue neutral, yes or no. Since the consumer always ends up paying in the end, the question is whether they want to be informed consumers in terms of recognizing that it is up front and visible. Or does it continue to be hidden?

In defence of the dental profession, my wife being a dental hygienist, you made the comment about destroying your mouth. They can only work with what they are given. If you do not have a good mouth to begin with, that is not their fault.

Mr. Friedman: Financial institutions are interesting. What I always wonder about is that in Canada we have a system called "first in, last out"--FILO. We are the first to try a tax and the last to get out of it once it has been proven that it does not work. We are the only developed country with a manufacturers' sales tax.

Why do other countries not tax financial institutions? I think Israel tried it in an additive way. They tried to go after salaries and profits of banks and have now backed off. Does it have something to do with, number one: "You tax financial institutions. I am going to pay for it, anyway"? It does not disappear.

But it has been explained. I am not sophisticated in the financial institution area, so I have brought it down to the lowest common denominator. If I am a large corporation, I am a borrower or a saver. I can go to the world market and get charged world interest. So if you tax the banks, consumers are going to end up not only paying their share of the tax, but also paying the share of the large corporation. I do not know if that makes sense. Maybe I have misstated it, but you can pick up the phone and borrow money anywhere in the world or put it anywhere in the world right now.

If I buy my modest $750,000 house in Toronto, I cannot go anywhere in the world. I have to borrow from the bank. Therefore, my interest rate is going to bear not only the tax on my borrowing, but perhaps the tax on a large corporation's borrowing.

There is a concern. I have no doubt that you are right. Political realities being what they are, the banks are going to be taxed. Life insurance companies are going to be taxed. One of my biggest fears is that somehow even registered retirement savings plans might eventually be taxed.

Mr. Haggerty: We are now being taxed on life insurance. The province collects on it right now.

Mr. Friedman: Yes, the province collects on it right now. I believe Newfoundland and Quebec also have a provincial sales tax on insurance.

Mr. Haggerty: So if you have any money in the bank and you are making a profit, such as it may be--and at present there is a differential between what you put in and what you take out in interest--there is a tax that we pay on that, too. So again the consumer pays there but it is a write-off for the bank. Financial institutions are not paying their fair share.

Mr. Friedman: I think you would not see the VAT on financial institutions separately. What the bank would be paying tax on is value added, so you would have an annual computation or a monthly computation of the value added by a bank. They would be required to pay a tax and then it would be up to them to spread it out.

I guess what I said is that, given a world market, who gets to carry that? If you think the market cannot bear it, then the banks will carry it and their profits will go down. But if they think the market can bear it, then I guess the consumer, the borrower or the saver is going to be hit with it.

Mr. Mackenzie: Once again, I seem to be missing something. Are we not looking at a substantial increase in paperwork on the credit at each level when you have to claim the credits?

Mr. Friedman: No kidding. We are looking at a move from 60,000 taxpayers to two million plus taxpayers, and that is the government. They have used 1.5 to 2 million, but it seems to be creeping up.

It is funny. I relate this story, because in the United Kingdom when they started this system, they said: "Look, we don't want the small businessmen, the small practitioners in, so let's do something for small accountants and lawyers. If you are below a certain threshold of revenues, you don't have to be registered. You will be exempt. You pay tax on your purchases." Accountants and lawyers generally do not have all that much in purchases. They may have some rent, they may have some paper, computers, whatever, but generally it is the value of their labours.

What they found is that most lawyers and accountants wanted to opt in because they did not want to admit to their clientele that they were too small. It illustrates two things. First, you are going to have just tons of registrants, but you are also going to end up with results you never even thought about. The other part of it was that the lawyer with only one client who is a corporation would want that person to be registered because that is the only way he could get a credit for the tax content of the lawyer's purchases.

If we use the example that a lawyer had sales of $50,000 and purchases of $10,000, they would not have to collect tax on the $50,000, which would make the consumer happy, but they would somehow have to pass on the 10 per cent, assuming a 10 per cent rate, of $10,000. If the lawyer did not have any consumer clients but had a corporation, by not being able to pass getting a credit for $1,000, the corporation suffers because of the $1,000. They would rather have the lawyer taxed on the total revenues because they get an instant credit for it.

Without really having to understand that, the results you want sometimes are not the results you get; and there is a lot of paperwork.

Mr. Mackenzie: They will choke to death on the paperwork, it seems to me.

Mr. Friedman: What it means is that most businesses are going to have to keep track of all purchases. It is almost like a good promotion device that we should get these things they used to have that you—what do you call those things?

Mr. Haggerty: The spike.

Mr. Friedman: The spike that you used to get rid of people by pushing them on there. You are going to have to keep track of every last purchase and once a month or once a quarter you are going to have to add up the tax that you paid, and that is everything. That is cab slips, that is restaurant meals, that is you name it; everything that a business consumes.

Mr. Chairman: When you speak of those 60,000 taxpayers, are you——

Mr. Friedman: Federal sales tax.

Mr. Chairman: Yes. You are not including——

Mr. Friedman: I am not talking about the retail.

Mr. Chairman: So there is some saving there.

Mr. Friedman: Yes, there is some saving. As the rate goes up, there is also more of an incentive to involuntarily stay out of the system.

That article, which, if you want, I can send to you——and I do not know how you figure this out——figures that in Italy about 40 per cent of total revenue is not being collected because of the large number of small retailers.

There was also a tax dodge in Belgium: car repairs. Car repairs are generally labour intensive, with very little in the way of materials a lot of the time. What they were doing is that if you took your car in for an oil change, instead of charging you the standard $100, they would charge you $10, collect VAT of $1 and take the other $90 in cash. You have got around the income tax system and the consumer is happy because you have saved him, at a 10 per cent rate, $9 of VAT.

You do have an underground economy, and we do have a lot of retailers and there is incentive. I do not mean to pick on dentists, so we will pick on somebody else. It used to be that you could go and get some service done and there was a cash price and an invoice price. Now you can have the invoice price and the cash price be the same because you have saved on services. You might save 10, 15 or 20 per cent value added tax, so there is a lot of incentive.

That is a concern, and I suspect it has not been really focused on because you do not want to put ideas in people's heads. I will not let my dog play with my mail because once he figures out how much fun it is I am not going to have much mail left.

There are all kinds of issues involved here about revenue security. The other side of it, and somebody mentioned bringing goods in from the US, is that there is a lot of leakage from individuals bringing goods in from the US and from overseas. If you have a joint system, you can have the federal government collect or you can collect tax at the border. Right now, if I bring in goods from the US at the border, I will be asked for duty and federal sales tax. Under a joint scheme, you could also ask for your share of the tax. There is some leakage in the system. I do not have the figures; you people would probably be able to get it a lot easier than I could.

Mr. Chairman: Are there any other questions? Mr. Friedman, I apologize for not being here when you started your presentation. I had another engagement, but when I entered the room it was obvious you were holding the whole committee in rapt attention. I am going to be reading the transcript

with some interest. I appreciate your coming here and imparting some wisdom on some of the problems which will be involved in a VAT tax if we have one. Thank you very much for taking the time.

Mr. Friedman: Thank you for listening to me.

Mr. Chairman: The finance department has informed Mr. Decker that the members' expense cheques for September will be delivered to his office by noon today. If that turns out to be true, he will get them to all members before they leave town today.

Mr. McCague: What was the message last week? I forget.

Mr. Chairman: I know. And then it was Tuesday, and Tuesday it was Wednesday and Wednesday it was today.

Mr. McCague: They are trying to deduct VAT, are they?

Mr. Chairman: Next week we will start our prebudget consultation with the Treasury officials. In fact, they will not have their book finished. It will be released during the first week of December. I am going to ask them to be armed with the latest figures. I see no problem; frankly, they must know what the figures are in that book by now and be able to come with those figures and discuss them with us. We had the option of that or starting the Treasury estimates, which have now been given to us, but the Treasurer (Mr. R. F. Nixon) was not available next week to start those estimates so I thought it was best to get going with the prebudget activity. We will do the estimates whenever we can.

The committee adjourned at 11:23 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION

THURSDAY, DECEMBER 1, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
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Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:
Gourley, Michael L., Assistant Deputy Minister, Office of the Budget and Intergovernmental Finance
Sweeting, Tom, Director, Taxation Policy Branch
McElwain, Mark W., Assistant Director, Fiscal Framework and Expenditure Forecasting
Love, Paul, Economist, Corporation Taxes

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 1, 1988

The committee met at 10:05 a.m. in room 151.

PREBUDGET CONSULTATION

Mr. Chairman: I see a quorum. This is the third annual prebudget consultation process, which I expect will result in our making some recommendations to the Treasurer in preparation for his spring 1989 budget. Our committee recently placed advertisements in all the major daily newspapers in the province, indicating that we were entertaining submissions as to what should be in the budget, and we are entertaining those submissions. If there is anyone who wishes to make a submission, he should contact the clerk of the committee, Todd Decker. A number of organizations have already contacted him.

I should indicate that, in asking for this, I expect--and from what I see so far from the response to the advertisements my expectation will be fulfilled--that it will again occur this year that a number of organizations, well known around Queen's Park, will be making submissions to us. Many of them will be saying that we do not spend enough money in those areas in which they have interest; be it education, hospitals, roads, the poor, universities, whatever. Others will be saying that we are not controlling the deficit closely enough. What I particularly hope we hear, not only from those groups, but from anyone else, is the question of taxes--to what extent do we cut the deficit and increase spending without looking at taxes.

I think our committee may not have been sufficiently diligent in that area in the past. I hope committee members will question every witness who appears before them concerning the extent to which the witness feels that we should be looking at taxes in the future, as well as questions with regard to the national sales tax plan, which the federal government will probably be expanding upon in its future discussions with the province.

Before we get started this morning particularly, I should tell committee members that we are planning to have our prebudget document finished by mid-February. From what I understand, it may be that the federal government will not bring in a budget in February, and it may not do so until as late as April. It may be, too, that our government will not bring in a budget until after the federal government has done so. So, some of the pressure that we have been putting on the Treasury to be prepared for this morning, among other things, may lessen a little bit. In any event, we should be prepared to carry on and get our prebudget material finished by that time. I think it would have a greater impact on the Treasurer if there were a greater lead time.

Next week, the General Agreement on Tariffs and Trade is having its midterm meeting in Montreal. As you recall, the Minister of Industry, Trade and Technology will be at that meeting with the Trade Negotiations Office in Ottawa. He has promised me that he will be available for debriefing, and we are trying to determine whether he will be back in time for us to meet with him next week to be debriefed on that matter. This morning, we have from the Ministry of Treasury and Economics a large number of people who will be of great assistance to us, led by Michael Gourley, the assistant deputy minister in the office of the budget and intergovernmental finance.

The economic and fiscal review is not yet tabled in the House. I expect it will be next week, but at this moment it has not been completed. Mr. Gourley will be concentrating on fiscal matters, as I understand, as opposed to the general overview of the economy. That is a very valuable assistance to us, obviously, in trying to determine what we should be saying to the Treasurer with regard to the budget in the future. Mr. Gourley, welcome to the committee. Whom do you have with you?

MINISTRY OF TREASURY AND ECONOMICS

Mr. Gourley: I have Mark McElwain, who is the director of the fiscal planning policy branch, and Tom Sweeting, who is the director of the taxation policy branch. A number of their staff are with me as well, and a number of other staff from the ministry.

I would like to thank you, Mr. Chairman, for this opportunity to make this presentation. As you indicated, it will concentrate on fiscal matters. We use the term "fiscal framework" for this presentation because it attempts to set the dimensions that the government has in respect of both the revenues and expenditures that it is responsible for. The presentation will essentially concentrate on various aspects of revenues and expenditures so we can see in some detail what they are, where they come from, how they behave and so on. We will have a look at that.

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I would like to start off with a brief overview of the fiscal framework, indicating, as the chairman has said, that since the economic outlook on fiscal review papers is not complete, I will not be dealing with the economic outlook at all; I will not be dealing with the financing of the government's operations. Those two areas are the responsibility of two other assistant deputy ministers in the Ministry of Treasury and Economics. Therefore, this presentation deals with my area of responsibility, which is putting together the fiscal framework.

This slide illustrates the size of the government's operations: $36.3 billion, as expressed in revenue terms and, in terms of expenditure, $37.9 billion, with an increase in the budget for this fiscal year--the year we are currently operating in--of $1.5 billion. That is an increase of $3.8 billion in the revenues and $2.9 billion in the expenditures; and a resulting decrease in the deficit as indicated in the budget of $945 million.

The revenue picture, as represented, shows that we are talking about $36.3 billion, which is broken down into several sources of revenue. I draw to the members' attention the fact that the major sources of revenue are taxation revenues. Seventy-one cents out of every dollar that Ontario receives come from some form of taxation. Personal income taxation provides 29 per cent of those revenues; retail sales tax provides 22 per cent; all of the corporations' income taxes provide 12 per cent; gasoline and field taxes are four per cent, and other taxes provide the balance of the taxation revenues.

Approximately 15 cents out of every dollar which the government is receiving in this fiscal year comes from the federal government in the form of payments under the established programs financing health and post-secondary education under the Canada Assistance Plan, which is essentially for income support programs which the government provides and in which the federal government shares, as well as other payments from the federal government.

There are a number of other revenues, nontaxation revenues, such as the fees, licences and permits, which provide three per cent interest on investments that the government is holding and provide approximately one per cent. Profits from the Liquor Control Board of Ontario operations provide two per cent of the total revenues. Ontario health insurance plan premiums represent five per cent, five cents out of every dollar which the government receives. There are also various other revenue sources which contribute.

I draw a couple of points from this chart in particular. One is that, at the moment, the federal government's contribution to Ontario's revenues represents 15 per cent. Ten years ago, the federal government provided 23 cents out of every dollar. So, there has been a major decline in the relative share of the federal government's participation in support of Ontario's revenue programs.

Mr. Pope: What was it last year?

Mr. Gourley: I do not have that handy.

Mr. Chairman: Last year it was 15 per cent, according to the economic outlook in the fiscal review of last year.

Mr. Gourley: It has been declining. We have a table in the presentation on a number of changes that have been made to federal programs, which will illustrate the kind of decline--or constraints, if you like--that have been placed on federal programs. We can go over that when we get to them in the presentation.

Mr. Pope: You do not anticipate any decline this year over last year, then?

Mr. Gourley: No, not at the moment. As the chairman indicated, the federal budget remains to be tabled and that is the time at which they would announce any changes to their participation in these programs.

Mr. Chairman: Do you mind answering a question of Mr. Ferraro?

Mr. Gourley: No, that is the best way to go.

Mr. Ferraro: Just one point: I have a question for Mr. Gourley. Would it be possible to get a chart for the committee showing where these particular areas have fluctuated over the last five or 10 years?

Mr. Gourley: Sure.

Mr. Ferraro: Could the members do that?

Mr. Gourley: Yes, we could. We could provide that for the committee. We do not have that with us, but we could certainly get that.

Mr. Ferraro: Fine.

Mr. Mackenzie: Could we have a comparative wheel, if you like, for the last two years--last year and the year before?

Mr. Gourley: Yes.

Mr. Kozyra: Is it too early to tell whether the one-cent increase in

sales tax has caused an increase or decrease in purchases, as it affects 22 per cent?

Mr. Gourley: I think it is fair to say it is a bit too early to tell. The particular impact that has is very difficult to tell because it is mixed in with a number of other factors that affect people's buying behaviours. Perhaps Tom would care to make a comment on it. I certainly know it is relatively impossible to say specifically what effect that had.

Mr. Kozyra: If ever it is possible, it would be important. It has had a really important bearing on all the discussions, whenever it has come up, in terms of whether it is a regressive tax and why and how it affects people. I think some follow-up to that would be extremely important for us.

Mr. Gourley: Tom, do you want to make any comment about whether it is possible to find out whether there is an impact at all?

Mr. Sweeting: It is awfully difficult to determine exactly what happens. It would be very nice to be able to sort of say that this is the impact that was due to the sales tax increase, but as Mike says, there are all kinds of factors that come into play. There is no base against which to compare what would have otherwise happened.

You are into more sophisticated econometric kinds of analysis to try to determine what happens and that is not something that is easy to do or done as a regular course. But perspectives can be drawn and intuition can certainly be applied to provide some feel as to what has happened.

Mr. Chairman: I note in your composition of economic revenues for 1987-88 that was in last year's report, which we are shortly going to have distributed to the committee, the retail sales tax was only 18 per cent of total revenue halfway through the year. Of course it went up one per cent but that would seem to suggest that sales have gone up more than is proportionate to our revenue.

Mr. Gourley: The total forecast growth in retail sales tax revenues is in the order of 24 per cent in the budget and that is not a trivial change in the revenue forecast. That reflects the strong economic growth that we have and it also reflects the increase in the retail sales tax rate. There is no doubt but that that tax move is a substantial move and, later on, as we look at the per-point yields, or the yield from a one-percentage-point change in each tax, you will see that is still estimated to be a large number. It is a significant number.

Mr. Mackenzie: It is more than one per cent.

Mr. Gourley: It is a one-percentage-point --

Mr. Mackenzie: But it is more than one per cent, though, when you look at the revenue increase.

Mr. McCague: Would it be fair to say 14.3 per cent difference?

Mr. Gourley: The total growth forecast in the revenue outlook for the province, as I indicated, was in the order of 24 per cent, in the budget, and that is a substantial increase in those revenues, combining both the tax increase and the economic growth or economic activity reflected in the current performance.

Mr. Sweeting: The numbers—for example, the four-point increase in the retail sales tax that was referred to—also reflect the fact that as a result of tax reform changes in the personal income tax, the flow of revenues under personal income taxes was reduced. So part of the reason why that 22 per cent is a slightly bigger share is because of the way revenues flow under personal income tax—and, for that matter, corporate and other taxes too—so it is not totally explained by what happens to the sales tax. It is also partly explained by what happens to other taxes.

Mr. Gourley: Because these are shares and the shares are shifted.

One other point I would like to make on this particular slide is that we estimate about 60 per cent of the revenues which we receive are responsive to the performance of the economy. Perhaps more important, that leaves about 40 per cent which are not directly responsive to the growth in the economy. That 40 per cent would include the fees and licences, for example, that are set or established by the government. Those do not respond directly to economic performance.

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I would also include in that number the transfer payments from the federal government, which are established in relation to the policies of the federal government. They also are a function of our own spending but they are affected, clearly, by the federal government's fiscal policies and their objectives.

Of the total revenue pie, as we see the economy growing or not growing, 60 per cent of the revenues that we receive do change, but 40 per cent are not responsive. They, therefore, require specific adjustment and that has implications for tax policy. It has implications for the kinds of programs that one can support on the expenditure side.

It means, looking over the past experience that we have had with economic growth and revenue growth, that revenues have been growing at just under, say, 95 per cent of the rate of growth in the economy. If the economy is growing by eight per cent, then revenues can be expected to grow by just under that amount, by about 95 per cent of that amount.

That particular feature of the revenues is a rather important feature for the members to be aware of as they consider the nature of the expenditure programs and the nature of other changes.

I indicated that we would be talking about the per-point yield. This slide is quite difficult to read. We also talked about the eight per cent retail sales tax rate and this slide is a series of figures which reveal what would happen or what is estimated would happen to Ontario's revenue if we were to move the retail sales tax rate or any of the tax rates by a specific amount. In this case, by one percentage point, that is to say, to move from eight per cent to nine per cent, we estimate would yield $915 million on a full-year basis in the year in which it was implemented, but that is also true of moving from eight per cent to seven per cent. That is the concept that is behind this whole page of information.

We do not have just one retail sales tax rate. There are differing rates. On transient accommodation or hotel rooms there is a five per cent retail sales tax; on alcoholic beverages at licensed establishments there is a 10 per cent retail sales tax, and at retail liquor outlets there is a 12 per cent retail sales tax applied to sales.

Now, if we were to move all of those retail sales tax rates by one percentage point, in either direction, it is estimated that we would yield $973 million. So you can see the eight per cent general rate is by far the most significant rate in the retail sales tax field. But there are these other rates which are applied and which can be adjusted differently, either up or down, depending on the policies of the government.

Mr. Chairman: May I ask you what you would be estimating the eight per cent, as opposed to seven per cent, is bringing us in now? I remember a year ago you were saying about $800 million.

Mr. Gourley: That is right.

Mr. Chairman: Then in the post-budget there was a lot of talk about it being closer to $1 billion.

Mr. Gourley: There are two aspects of the implementation of any taxation increase that one has to consider.

One is the timing. Does it apply for the full year? In this case, we have given the full-year impact. So if you do not introduce a taxation increase until some point during the year, halfway through the year, you are not going to get as much money. So that is an important factor.

On the other hand, the overall economic activity taking place during that year also affects the yield from that particular tax change. If you like, as the economy grows, each year the particular one percentage point will yield more money if the economy or the base has grown in absolute terms.

Mr. Ferraro: What base did you use here?

Mr. Gourley: We used this year's base. The economy has grown by between eight per cent and nine per cent this year. So our previous year's outlook, the material that you have before you that you are perhaps looking at and saying, "Well, the number was lower than this number," reflected the fact that Ontario's economy last year was smaller than it is this year. It is now larger. There is a larger value for the total retail sales tax base. Therefore, if you change the rate of taxation on that base you are going to get a larger number because you are applying the same number to a larger base. It is no more difficult than that.

Mr. Sweeting: The figure of $1 billion that was referred to in the context of the budget was a calculation based on a part-year application of a one point increase in the retail sales tax. It also included other retail sales tax moves, including the taxation of concrete and changing the way that concrete is taxed, including advertising inserts and a couple of other retail sales taxes. Those were the numbers for 1988-89 that were estimated to be almost $1 billion in increased revenues.

Mr. Chairman: Mr. McCague, you had a question?

Mr. McCague: Sorry. I was interrupted when you were speaking. I thought in the budget that the full-year impact of the one per cent increase brought you, on a full-year basis, about $985 million.

Mr. Sweeting: No. The $986 million that was reported in the budget is the estimated full-year revenue that you would have got from a number of changes. You are quite right, in fact, in correcting what I may have indicated

earlier. The $985 million, if you had had a full year's one point of additional retail sales tax—and we changed the treatment of asphalt and concrete, advertising inserts and that sort of thing—you get that contributing to the total amount of money that was there for the retail sales tax.

Mr. McCague: Just help me a little. You say that if you increased all these taxes by one per cent, the full-year impact would be $973 million?

Mr. Sweeting: This year.

Mr. Gourley: On all the retail sales taxes.

Mr. McCague: Right.

Mr. Gourley: But it does not include any other revenue moves that you might make. Within the retail sales you could change the taxation of the base. Not everything is taxed. If you were to tax something next year that you do not tax this year that would have an impact. This is just a rate change on the existing base. There is no assumption about any expansion or contraction of the base, of exempting something or of applying the tax to some good or service that is not currently taxed. It is just saying, "If you have your current policy in place, how much could be raised or how much would be lost if we changed the retail sales tax rate?"

It is important, in considering what options are available to the government, to look at it as both a positive and a negative potential revenue change. It could be up $973 million if you took all those rates up by one percentage point, from eight to nine per cent, five to six per cent, 10 to 11 per cent or 12 to 13 per cent, but you could do the reverse as well, if you thought that was appropriate in the economic and fiscal circumstances facing the province.

Mr. McCague: I understand, Mr. Gourley, what you are saying. I was out $1 million on my $985-million figure.

Mr. Gourley: Right.

Mr. McCague: But you estimated $986 million was the impact of the increase over a full-year period. Now you seem to be saying $973 million. My question is, though, are you now revising your forecast of earnings down?

Mr. Sweeting: No. The $973-million figure includes $13 million, $17 million and $28 million for the five, 10 and 12 per cent rates. Those were not adjusted in the budget. The $986 or $985 million figure that is being referred to works out to $915 million, just that part of the $973 million plus those other additional changes that were made to the base. So $915 million plus changes to asphalt and concrete plus changes to advertising comes to a full-year value of $986 million.

Mr. Gourley: If I could just try to illustrate, Mr. McCague. In last year's Economic Outlook and Fiscal Review, we gave the same table and we said that the full-year yield of a one-percentage-point increase in the general rate would be about $822 million. That is what we said last year at this time. When we got to the budget it was obviously going to be higher than that, but we also made some changes to the base. It is not the same taxation base to which we are applying that rate.

In the budget we give the full-year impact of the budget changes, which includes both a rate change and a base change. We contracted some and we expanded some. We now tax asphalt and concrete in a different way than we did before. That is called a base change. That means that there is a larger potential being taxed than was before. I think that the proper comparison is between the $822 million that was estimated last year and the $915 million which are, if you like, planning numbers or decision numbers that the government has to look at in terms of seeing what moves are available, what potential changes can be made and what they would yield.

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When you get to the budget, you have to say that this budget does certain things. It changes the rate and it changes the base. What is the full-year impact in fiscal terms of those rate changes in combination with those base changes? In fact, this number, $915 million, is higher, both because the economy has grown, so you have a larger base, but also because between last year and this year we changed the base. There are more things in the base this year than there were last year. That is why we have a higher number than last year. Each year that will increase, as long as the economy is growing and as long as the base either stays the same or grows.

Mr. McCague: Without belabouring the fact, you might send me a kind of an explanation of what it is you are saying. We were told that the impact of the one per cent increase in retail sales tax would be, on a full year basis, $986 million. Now you are telling us today that the impact of a one per cent increase on that would only bring you something around, are you saying, $915 million?

Mr. Gourley: Yes, $915 million; right, on that particular basis. The $986 million is the yield on the budget moves. We will be happy to send you a note on that showing the difference—

Mr. Chairman: Perhaps you could.

Mr. Gourley: —because the budget move does not only include the rate. It includes the base changes which were our estimate. Again, they are an estimate of the changes. We would be happy to send a note to you, Mr. McCague.

Mr. McCague: These are a type of mathematics that I was not taught in high school or in university.

Mr. Pelissero: Did they have electricity then?

Mr. Chairman: Perhaps the whole committee could utilize that note. Did you have a question, Mr. Ferraro?

Mr. Ferraro: Yes. I do not want to belabour the point either. I was a couple of years behind Mr. McCague and the math was not any simpler then, George. I want to ask again, if I can, what your definition of the base is.

Mr. Gourley: That is probably about four pages in the act. It includes—

Mr. Ferraro: Let me ask you this and you tell me if I am wrong. When you determine the $915-million figure, my first question would be, our year ends April 1? So it goes March 31 to April 1, is that right?

Mr. Gourley: Yes, that is right.

Mr. Ferraro: The eight per cent change came in on May 2. So is the $915-million determination based on a full 12 months or from May 2 to April 1?

Mr. Gourley: That is a 12-month figure; $915 million says that if you implement any change that you contemplate on April 1, it is for a full year. If you do it differently, it is going to be less. It cannot be more than that.

Mr. Ferraro: Okay, now the estimate of $915 million, that is based not only on the increase in relative percentage points from seven to eight per cent, but also on the increase of retail sales per month. Is that right? Or did you take eight per cent and go over 1986-87 gross sales, or whatever that amount is, that you used as a base? Do you see what I am getting at?

Mr. Sweeting: The number of $915 million represents a per point yield. It does not matter how many points of tax you have, whether you rate 7, 8 or 10. That number represents what one point would yield. It is a calculation that is based on estimates, sort of like the taxable portion of the spending base in the economy and how big it is currently in this particular year.

Mr. Ferraro: But that is based on the actual figures, if you will, or estimated figures, including gross retail sales increases and so forth. That was my question. As opposed to saying that it is one percentage point over the previous amount of base.

Mr. Sweeting: No, it is an estimation procedure that intends to be as current as possible.

Mr. Pelissero: Supplementary.

Mr. Ferraro: And over a 12-month period time?

Mr. Sweeting: Over a 12-month period.

Mr. Morin-Strom: I thought I had a supplementary first.

Mr. Chairman: Sorry, is that a supplementary? All right.

Mr. Morin-Strom: Relating to the sales tax again. We got the difference in the per point yield. What is the actual difference in terms of how much revenue you are taking in total sales tax dollars from this general percentage the year before the tax increase versus what you are taking in sales tax the year after the tax increase? I do not want to know the $915 million; what are the actual dollars? How many billions up to how many billions?

Mr. Gourley: We have that number, and my only comment before we give you that number is that it is both the tax rate increase and the economic growth that has taken place.

Mr. Morin-Strom: Sure.

Mr. Gourley: So that number is--

Mr. Pelissero: The envelope please.

Mr. McElwain: Our current forecast is that retail sales tax revenues this year were $7.797 billion. Last year, the actual collections were $6.305 billion.

Mr. Morin-Strom: What is that increase then?

Mr. McElwain: That is a 23.7 per cent increase. That is the 24 per cent figure that Michael Gourley was speaking about earlier, which is a combination of the growth in the economy, the increased rate and the base changes that were made in the last budget.

Mr. Morin-Strom: The difference in the two figures is $7.797 billion versus $6.305 billion?

Mr. McElwain: That is right.

Mr. Morin-Strom: An increase of $1.492 million?

Mr. Gourley: That is correct.

Mr. Morin-Strom: The government's take from the taxpayers of Ontario on sales taxes went up by nearly $1.5 billion, an additional take from the province of 23.7 per cent in the tax revenues to pay for the costs of running this government?

Mr. Gourley: That is correct.

Mr. Gourley: They came from the three sources that Mark McElwain indicated.

Mr. Morin-Strom: That is really what the hit on the people of the province was, 23.7 per cent?

Mr. Gourley: That is the growth in the revenues.

Mr. Morin-Strom: That is how much more you have taken out of the taxpayers' pocket compared to the year before?

Mr. Gourley: More people came into the province, for example. That resulted in economic growth. They purchased goods and that is part of the growth. The base was changed. We are taxing asphalt and concrete differently; that is part of the growth, and the rate was changed from seven per cent to eight per cent. That is also part of the growth in that number—

Mr. Morin-Strom: It certainly puts the lie to the government's contention that we had a one percentage increase in sales taxes last year.

Mr. Gourley: A one-percentage-point increase.

Mr. Morin-Strom: One percentage point, but in fact you are taking 23.7 per cent more money out of the pockets of consumers than the year before.

Mr. Pelissero: You cannot compare the two.

Mr. Morin-Strom: They sure are comparable. That is exactly the difference: $1.5 billion.

Mr. Pelissero: No. He just said you cannot compare the two from

three points: one, from an economic growth factor; two, from a percentage-point increase to eight per cent, and three, the base has been broadened. So you cannot compare, to say that it was more than a--

Mr. Chairman: You could certainly use the same arguments, Mr. Morin-Strom, to say that the increase in sales tax did not harm the economy at all.

Mr. Morin-Strom: What was the economic growth last year?

Mr. McElwain: It was forecast at eight per cent.

Mr. Morin-Strom: We had an eight per cent growth--

Mr. McElwain: It was 8.9 per cent.

Mr. Morin-Strom: --but the government took 23.7 per cent more money out of the taxpayers' pocket.

Mr. Pope: I call that sticking it to us.

Mr. Morin-Strom: That is for sure.

Mr. Chairman: Do you have a supplementary, Mr. Pelissero?

Mr. Gourley: Mr. Chairman, before you go on, it was 8.9 per cent. The forecast growth in the economy in the budget was 8.9 per cent.

Mr. Pelissero: You go back and reflect that the year before you were predicting $822 million and this year you are projecting $915 million. Do you go back to compare the actual, similar to the exercise that Mr. Morin-Strom went through, or would you say it is almost impossible to do that, given that the base seems to change on a continuous basis?

Mr. Gourley: It is quite clear that you can establish the difference between what we collected in total this year and the difference between that and what we collected in total last year. Explaining that difference is a challenge and trying to separate out--we can estimate the value of that, but this is a technique we have developed to try to illustrate, for decision-makers and advisers to the government, what the effect would be of changing that tax rate.

It is not an attempt to try to say that of the revenues we collected, so much came from this and so much came from that. It is more an attempt to see what the impact of making a change would be. It is used for those purposes and to illustrate to individuals.

For example, when the government receives a request for an additional program that would cost $1 billion, one way of saying what that means to the government is to say it would mean a one-percentage-point increase on all the retail sales tax rates. To fund that $1-billion program, you would have to accept that the province would have a nine per cent retail sales tax rate, if it is a $1-billion program that someone wants.

That is really how this table is used. It is not an attempt to audit, because I frankly do not think it is possible to audit. You can develop an estimation and come up with a judgement, but then you end up with a discussion about whose judgement is correct as to what the impact was.

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Mr. Chairman: Okay. Go ahead.

Mr. Gourley: I just want to go to the balance of the taxes, perhaps stopping for a moment on the personal income tax rate, which we have expressed here as the rate of taxation on taxable income. As you are no doubt familiar, the statutory rate of the personal income tax is 51 per cent of the basic federal tax, but in equivalent terms of tax on taxable income, that results in an 8.67 per cent rate applied to taxable income up to $27,500 and so on, as illustrated in this slide.

The figure we have illustrated here, again changing all the personal income tax rates by one percentage point as a tax on taxable income, on the taxable income base, if you like, is about $1.4 billion, as illustrated on this slide.

We then go down to look at the corporate income tax field where a one-percentage-point increase on the corporate income tax base, on all the rates of the corporate income base, would yield $255 million. Similarly, a one-cent-per-litre increase on all fuel tax rates, including diesel fuel and aviation fuel and so on, would result in a $181-million increase. Finally, one tenth of a percentage point on the land transfer tax rates would yield approximately $60 million.

As I say, these are tables provided to illustrate the potential yield. They are estimates and they may not in fact yield these revenues because there may be some factor which we cannot judge which changes people's behaviour. Most frequently cited is that, if you do raise the retail sales tax rate, people can say that others might be tempted to buy less. That is a possibility. That is a generally accepted view of that circumstance. Whether that would cause them to hesitate for a month, a week, a year or a day is a matter of judgement. By the same token, if you were to take it off, if you were to remove or reduce the sales tax or reduce the personal income tax rate, people's behaviour could change and the yield of that particular tax could be greater than we have estimated here. But these are estimates.

Are there any other questions?

Mr. Chairman: Mr. Ferraro has a question.

Mr. Ferraro: Just for clarification, because I sometimes get confused myself, as I look at this graph, in essence, if we include small business, in relative terms we are looking at about a 13 per cent average, roughly, that corporations would pay as a result of Ontario taxation. Is that correct?

Mr. Gourley: I think it is important to keep the tax rates separate, but because of the size of the base—

Mr. Ferraro: What I want to do with that is compare it to the 1987-88 figures, Mr. Gourley, in which case it shows corporation taxes of 11 per cent. Would I be fairly safe in saying that if we average those three out, Ontario corporation taxes would be around 13 per cent? Would that be a safe analogy for comparison?

Mr. Sweeting: Sorry, Mr. Ferraro. What is the 11 per cent number?

Mr. Ferraro: It is composition of Ontario revenues for 1987-88.

Mr. Sweeting: Those are two different numbers. The 15 per cent to which you were referring would be an average statutory rate. The 11 per cent is an estimation of what share of total revenues generated for the province was paid for by corporations, which of course is applying a rate to a base and taking that as a percentage of all revenues. So they are different things.

Mr. Ferraro: I guess what I need is the average statutory rate for 1987-88.

Mr. Sweeting: It probably would not have changed. Probably there were no changes in corporate income tax rates between 1987 and 1988.

Mr. Ferraro: Okay. Is the argument that confuses a lot of people, that corporations do not pay their fair share of income in proportion—and I am not going to argue that philosophically, but from a logical standpoint—essentially the result of some companies or corporations carrying losses forward from previous years?

Mr. Sweeting: Yes.

Mr. Ferraro: Is it true to say that they are being taxed on a yearly basis? One can argue that it is not enough.

Mr. Gourley: The capital tax certainly provides a tax to those companies, whether they make a profit or not.

Mr. Sweeting: There are two features to that debate. One is that corporations in Ontario do pay taxes and at a substantial level—

Mr. Ferraro: Every corporation does?

Mr. Sweeting: Not every corporation does. If you are small enough, you will pay neither capital tax nor, if you made insufficient income—

Mr. Ferraro: I think the point of contention is the big corporations.

Mr. Sweeting: Certainly, big corporations will pay a capital tax regardless of their profitability for corporate income tax.

Mr. Ferraro: How much is that roughly?

Mr. Sweeting: The capital tax most corporations generate is three tenths of one per cent of a base. In terms of revenue, it is upwards of $500 million per year coming from capital taxes on corporations.

Mr. Ferraro: The corporation income tax is the point in contention, I think, when talking philosophically.

Mr. Sweeting: Yes.

Mr. Ferraro: Or logically.

Mr. Sweeting: That is right. And those are the statistics that are quoted often about so many corporations did not pay any income tax.

Mr. Ferraro: Okay. But Ontario does, for those companies that make a

profit, obviously, charge a tax on to all corporations. If in fact they make a profit, they can carry losses forward which, in essence, would negate any tax payable for that year?

Mr. Sweeting: Yes. There are two reasons why corporations would not pay tax. One is because they did not make sufficient profit. The second one is because they had sufficient profit but, through investment patterns and claims for capital cost allowances or for past year losses that they have moved forward, they could reduce for tax purposes, to zero. So, even though they make a profit, their tax tabs would be zero.

Mr. Ferraro: All right. Let me ask you the infinite question then. When politicians of all parties stand up and say, "Corporations are not paying enough," what it boils down to, in essence, is whether or not they should be allowed to carry losses forward, in order to negate that year's income tax payable by a corporation. Tom, can you tell us why we should allow them to carry losses forward?

Mr. Sweeting: It is, of course, not just carrying losses forward. There are a variety of deductions that corporations use to reduce their taxable income.

Mr. Ferraro: Yes, I realize that.

Mr. Sweeting: And indeed, that question that you are asking is essentially what the basis of the recent tax reform exercise was. The federal government made a number of changes this year, as I think you are aware, to corporate income taxation in Canada. They broadened the base, they cut back on a number of the exemptions that were available; the fast write-offs that manufacturers got for investing in machinery and equipment were substantially scaled down.

The intent was to broaden the base to increase the number of circumstances in which corporations with profit pay taxes. At the same time, the rates were reduced at the federal level to recognize that this broader base would have thrown up higher taxes and it was not the intention to generate a significant increase in revenue from corporations.

Ontario, for our part, as we indicated in the budget, believed that was the right direction to go in. And as a result, we also expanded our base substantially. We did not reduce rates, as the federal government did, but we certainly did increase the likelihood that corporations with profits would pay a corporate income tax.

At the same time, we also introduced a new exemption, or a deduction, for investing in machinery and equipment because the government feels that is an important aspect of our economy, that it is important to be able to compete with other investment locations. In order for us to feel that we had a good competitive stance, we needed to make sure that rates of return on new investment and that sort of thing were satisfactory. That required the province to make certain deductions available.

That is what one would call productive use of the tax system because, in order to gain that tax deduction, someone has to do something; they have to invest, they have to buy machinery and equipment. So, that is the explanation as to why would they be able to write it down to zero; because, for most deductions, there is an expectation that, since a productive activity has taken place, the tax system should take it into consideration.

The other thing to remember is that most major write-offs for corporations simply result in deferrals of tax. When you have taxable income in a current year and apply a write-off to it, that write-off winds down after a period of time and then the income it generated is going to be brought to tax.

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Mr. Ferraro: Okay. Thank you.

Mr. Chairman: Mr. Cleary, is this on corporate tax?

Mr. Cleary: Yes.

Mr. Chairman: Okay. And then Mr. Morin-Strom.

Mr. Cleary: I guess this would be to Tom. What is the highest percentage of depreciation a corporation can charge per year on equipment?

Mr. Sweeting: Other than for a very small class, 30 per cent. Typically, the most focused upon deduction for corporate tax purposes is what is called the fast write-off for machinery and equipment investment by manufacturers. That used to be written off over two years at 50 per cent a year. It ended up being over three years, but that was sort of a technical wrinkle in the tax act, and that has been dropped to 30 per cent. So that would probably be the richest write-off.

It takes approximately nine to 11 years to write off the total value of an expenditure under that 30 per cent with that reducing system. That is the most generous one.

Mr. Morin-Strom: Let's look at this issue. The biggest write-off now you say is 30 per cent on a declining balance? It used to be--

Mr. Sweeting: For all intents and purposes. There are a couple of smaller ones that I think are faster, but that is a big one, and that is -

Mr. Morin-Strom: The biggest category to my knowledge, working with the steel industry, used to be the 25-50-25 write-off.

Mr. Sweeting: Yes.

Mr. Morin-Strom: Which wrote off everything within two years or three years, whatever you wanted to call it; assuming the investment happened midway in a year, it is written off in two and a half years.

Mr. Sweeting: That is right.

Mr. Morin-Strom: That has been changed to 30 per cent declining balance. That means, though, that 50 per cent in fact is written off in two years? More than 50 per cent in two years.

Interjection: It is around that.

Mr. Sweeting: I will just ask Paul Love to join us from Treasury staff to help us here with a bit of information.

Mr. Morin-Strom: Because they have this rule, the half-year rule, it is 15 per cent the first year -

Mr. Love: Because of the half-year rule, it is 15 per cent in the first year. So, you have 85 per cent of the cost left to write off and then it is 30 per cent on that 85. So in fact it factors down quite a bit.

Mr. Morin-Strom: So actually it would be a little more complicated than that?

Mr. Love: Yes.

Mr. Morin-Strom: The write-off within the first two or two and a half years is pretty substantial?

Mr. Love: I would say in the first four years it is substantial.

Mr. Sweeting: In the first two years it would be in excess of 40 per cent.

Mr. Gourley: That is a good example of a detailed calculation we could send you and that would illustrate how that would work, too.

Mr. Morin-Strom: But in fact, my experience in major industry is that the tax expenditures from the capital cost allowance and the allowing of the corporations to write off on their tax books—corporation always have two sets of books—their tax books and their public accounting books.

Depreciation, which may be written off on a major investment in equipment over 20 or 30 years' useful lifetime, is effectively written off within a few—most of it; it used to be everything—within three years. Most of it now is written off within a very few years in comparison with the useful life of that equipment.

The result of that has been, though, that major corporations have been able to be profitable, not in fact by writing off the previous tax-year losses, as the member for Guelph (Mr. Ferraro) is suggesting, as the reason for not paying taxes, but rather the major reason they have not paid taxes is because governments have allowed them to write off quick depreciation much quicker than the useful life of the equipment investment. They have been able to go year after year making profits and not paying taxes—for as many as 10 or more profitable years consecutively with no corporate income taxes paid.

Mr. Gourley: I would not say no corporate income taxes because the capital tax would certainly apply.

Mr. Morin-Strom: The capital tax is a separate type of tax. I am talking about the—

Mr. Gourley: The corporations tax.

Mr. Morin-Strom: Yes. That is like us paying property tax; as consumers as well, we all know we have to pay property taxes. There are certain types of taxes but we are not able to defer our personal income taxes for 10 years in a row.

Mr. Love: Your concept is correct in that the accountant will write it off over the useful life.

In the tax system, they say, "Well, you can write it off in less than the useful life," which means that while that machine is sitting on the floor

generating widgets, let's say, it would be generating widgets which would generate profits for the company. The machine has already been written off, so those profits in the later year will be fully taxed. It is simply a shifting between periods. In the end it is all written off, but the profits the thing generates will be subject to tax.

Mr. Morin-Strom: But in effect, the corporations really never pay the tax because as long as they keep investing—they do not give the money back in dividends or returns of capital to the shareholders, but they keep investing in fast-depreciating assets—they can go almost endlessly without paying taxes.

Mr. Gourley: But the tax is only one dimension of the decision, because investment in equipment is going to create jobs. You could say that as long as they go on investing and creating jobs and employment, they are not going to be paying income tax, by the same token, if you follow me there. Taxation is only one aspect.

Mr. Ferraro: That is right.

Mr. Morin-Strom: One can argue that an individual who is continuing to support the economy by buying goods and services, supporting his family and paying property tax, sales tax and so on is not accumulating wealth. Particularly those at the lower income scales are not accumulating wealth. They are contributing to the economy, but they are not getting off tax-free as a result.

Mr. Love: Our analysis indicates, though, that when the corporate sector is looking at where to locate a new investment, be it Ontario versus Quebec, for instance, or a US state, one of the aspects it examines closely is what tax incentives are there for the investment. So while an individual may decide that the tax system is preventing him from making an investment, in a corporate sense what they look at is where the tax is deferred the longest, which means, in other words, how generous the incentives are.

If Ontario were to move its tax depreciation rates up to match the accounting rates, economic studies have indicated that, in fact, we might see a drop in investment in Ontario.

Mr. Morin-Strom: In fact, do the free trade agreement and the pressures for the economic harmonization of the two countries not imply that there is going to be tremendous pressure from businesses from precisely the point you are making? We are going to have to ensure that we do not have tax rates that are putting us at a disadvantageous position relative to United States investment locations. In fact, we are going to have to be constrained by US tax law when it comes to corporate taxes.

Mr. Ferraro: And the currency gets narrow.

Mr. Chairman: We are getting off on a number of questions.

Mr. Gourley: What I would like to suggest is that we go on, because there are a number of aspects of the revenue structure and expenditure structure—

Mr. Chairman: We will treat that as a rhetorical question then.

Mr. Gourley: This next slide deals with, in part, comparative

position with other jurisdictions on the corporations income tax. We have only two of the rates illustrated here, the general rate in the light bar and the small business rate in the dark bar, and we have compared Ontario's rates with those of other provinces in Canada. I think you can see that in the general rate there is a clustering of rates, with the exception of Quebec, and then there is also a clustering of the small business rate, with the exception of Quebec again and Alberta.

Mr. Ferraro: I guess they can do that because they get all the federal money.

Mr. Chairman: This raises an interesting question. In the current issue of Exchange magazine, Ed Arbuckle, who is a chartered accountant, actually describes Quebec as a corporate tax haven and sets out ways in which companies can, and in his view should, try to transfer their corporate taxes to Quebec. He actually sets out ways you can do it if you have some business in that province. Is that a problem for us?

Mr. Gourley: I will come back to that. If I could just make a point, that is the corporate income tax comparison. This is the personal income tax rate comparison.

Mr. Pope: Put your business in Quebec, but all your employees live in Ontario.

Mr. Gourley: I think this also shows a certain perspective on Quebec's policies with respect to personal income taxation as contrasted with its corporate income taxation policies, where it definitely does have a certain statement to make. That is something Ontario has to consider and members have to consider when suggesting changes to the corporate income tax rate—small, medium, large, manufacturing, processing, logging, farming, whatever those corporate income tax rates are. If anyone recommends a change to them, he has to look at this comparative figure.

Mr. Love indicated earlier that you have to look south of the border as well. The border states have always been a comparative jurisdiction which we look at carefully. There are always comparisons being made about various aspects of the sort of competitive position of Ontario vis-à-vis other jurisdictions or, if you like, every aspect of life.

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On that particular question, I would like to suggest that those kinds of questions might be looked at in the context of the overall economy of Ontario. When the economy is being talked about and the outlook is being discussed, that might be an opportunity to discuss that.

But in respect of Quebec as a corporate income tax haven, that is a very charged expression. Certainly they do have substantially different rates and they are lower. They are substantially lower.

Paul, do you have anything?

Mr. Love: The only other comment I might add is that, according to Quebec's 1988 budget, they do quite an extensive interprovincial comparison and they conclude that Ontario has a tax advantage over Quebec, in the corporate sense, of five per cent. This means when you put all the taxes together—not just income taxes; you put the capital tax in Quebec, which is

higher, and you put the payroll tax, which Ontario does not have—the bottom line is that our tax burden is just slightly lower than Quebec's.

Mr. Gourley: With respect to the corporate income tax rate, perhaps there is a statement to be made about it, but with respect to the total tax burden, according to Quebec's own analysis, it is at a competitive disadvantage and it has been adjusting its policies and making changes to attract industry to say: "We are more competitive. Look at us."

That competition goes on all the time. That is part of the job, if you like, of the provincial, federal and state treasuries, to look at those competitive aspects and to say what we think about that. Does that mean we should do something? That is what the budget is all about when it finally comes down. It says we have looked at it, we have considered it and we think some choice should be made.

Mr. Ferraro: Could I just ask one quick question? Is there an independent source that would determine who the hell has the advantage from a corporation tax point? Does the Conference Board of Canada or the C. D. Howe Institute look at this?

Mr. Sweeting: There have have studies done. The conference board, I think, has put out studies recently, so you could certainly go to an independent source. We would caution you. For example, the conference board study, as far as I am aware, simply looks at income tax rates. It does not incorporate the other aspects that are associated with it.

I can check, but I am not aware of comprehensive studies being done along the kinds of things Mr. Gourley was looking at. At the risk of making a generic statement, tax rates like that are important to where you report your profits. You want to report them in low-tax-rate jurisdictions because you pay less tax on them, but the general tax environment that Mr. Gourley was referring to, as well as the state of investment incentives, influence where you want to earn them, and they can be two different places.

You may want to do your investment and earn your profits in one place and get them reported in another through various kinds of mechanisms. When you are looking at investments, rates may not be as significant as the incentives that are available, the overall tax burden. When you are looking at an ongoing operation that is going to report profit in a particular year, if it does not have big investment plans, then rates may be something attractive to it. There is no easy answer to what that 5.9 per cent, I guess it is, Quebec corporate income tax rate means in terms of tax-haven status. In some circumstances, it may be attractive; in others, it might not have very much influence at all.

Mr. Gourley: I will also say it is important to remember that tax treatment is not the only competitive aspect that you should consider, and companies do not, in fact, consider just taxes. Taxes are important, but they are not the only consideration that individuals and corporations make in where they are going to locate, where they are going to do business and so on. Once they have made that decision, they then obviously have the choices that Mr. Sweeting talked about of deciding where to report the taxation, if the tax system permits them to do that, but I think these other factors are as important, certainly in total.

The quality of life that is available in Ontario, for example, for anyone who has been here to experience it first-hand, has to be a major consideration. If all you are thinking about is the taxation treatment of your

company and your employees, certainly that is important for the bottom line and it is important for the individual personal income tax, but there are many other considerations: fine schools, good health care.

You asked about objective assessment. I think that is where the difficulty comes in. You cannot put a specific value on those things. You can attempt to measure it, but--

Mr. Ferraro: I realize that, but I was just concerned about the allegation from a pure fiscal standpoint, from a taxation standpoint; whether or not they were blowing into the wind or there was some credibility to what they were saying.

Mr. Gourley: I think there is lots of room for debate, even on the so-called pure fiscal stance. That is another presentation--

Mr. Chairman: Mr. Pope has a question or two.

Mr. Pope: Yes. Could you provide us with the comparative corporate tax and overall tax rates for the American jurisdictions?

Mr. Gourley: I think we have some data on that. I am not sure. You know, there are all of the states. I am not sure if we have that readily at hand.

Mr. Sweeting: I think we have some information on what we would consider to be the competitive states that are of most concern to us.

Mr. Pope: Right.

Mr. Sweeting: We have income tax information and, to some degree, they have other little taxes that they would implement.

Mr. Pope: Yes. If I could just have that, I would appreciate it.

Mr. Sweeting: Okay.

Mr. Gourley: I covered personal income tax in contrast to the corporate income tax rates, and Ontario compares favourably, I think, with respect to the rates across Canada.

I move now to the retail sales tax rate comparison. It shows that Ontario is in the middle. The provinces to the west have lower rates and the provinces to the east all have higher retail sales tax rates, but again, although the rates tend to be the high profile aspect of taxation, the bases may be different. Things which are taxed in Quebec and Ontario may not be taxed in Manitoba and things which are taxed in Manitoba may not be taxed under the Retail Sales Tax Act in other provinces, and so on. So that the rates, although they are high profile indicators of tax treatment, are not the only consideration.

We have been talking about all the taxes that are collected or that are applied which are in force. I want to spend a moment on tax expenditures; that is to say, taxes which are not collected or which are not applied, or where there is a zero rate. Those mean that although the tax rate applies to most goods and services, not all services are taxed and there is an estimate, a value, that you can put on those tax bases in assuming that the rate, say the eight per cent retail sales tax rate, were applied to all professional services.

That is assuming that there would be no change in people's behaviour, that they would not move to other jurisdictions to escape taxation, but assuming that you could tax those tax bases, here is an estimate of the tax revenue forgone. We have it as a fairly precise number here, but it is quite an estimating feat to do this; taking a base, applying the rate and making an assumption that everything else remains the same, which is not necessarily the case.

We have basic groceries here. For example, if the retail sales tax were applied to basic groceries, there would be, it is estimated, $1 billion in revenue received by the province through doing that but, of course, people's behaviour might change as a result of taxing basic groceries. They might go to some other province or state and buy the groceries and come back across the border and say, "I have bought my goods tax-free" and all of that sort of thing that goes on.

These are revenues forgone and estimates provided in the tax expenditures.

Mr. Pelissero: Given the federal government is contemplating second-step tax reform, how accurate would those numbers be if the federal government decided to implement a value-added tax?

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Mr. Gourley: These calculations are based on Ontario's current tax policy and the fact that these goods are all exempt from the retail sales tax. They really do not take into consideration the discussions that are ongoing on the national sales tax. They do not affect the accuracy. This says: "Just think about these elements as part of our normal tax base. If you applied the tax, what would you get?" That is what these numbers are estimated to be. The national sales tax is a whole different question, a different way of taxing goods, a different base, and has nothing to do with revenues forgone, which is what this is.

I know Larry Leonard has been before the committee speaking about the national sales tax. Since that is not my particular area of jurisdiction or expertise, I suggest that any detailed question be asked of him. My point here is that the national sales tax discussion of applications really does not affect the accuracy of these numbers at all. These numbers are in relation to the eight per cent retail sales tax.

Mr. Pelissero: Because we do not currently tax professional services, and I am assuming the professional services that you have identified here would be similar to the professional services that they would be contemplating taxing under the federal scheme--

Mr. Gourley: Yes. The definition of a basis would be the same. The professional service is a professional service; it does not change because of the tax that is going to be applied.

Mr. Pelissero: Okay. Maybe it is too much of a simplification to say that if we are now forgoing $3.6 billion in provincial taxes by simply--let's assume we do not touch that in the sense that they throw on eight per cent--and I am assuming this was calculated at eight per cent.

Mr. Gourley: Eight per cent Ontario.

Mr. Pelissero: Okay. If they have put an eight per cent national sales tax on professional services that would apply to Ontario, would this amount then be the money that would come in from that?

Mr. Gourley: If you assumed that all other things were equal, and that is the big assumption, I think the answer to your question is yes.

Mr. Pelissero: He is saying no.

Mr. Gourley: Okay, right.

Mr. Pelissero: One head is going this way and one is going that way.

Mr. Gourley: This is where you have to then say, okay, what is going to happen to those services? Are they going to stay here? Are they going to be here? Are they going to be part of business inputs? Are they going to be professional services provided to business and will they therefore be exempt from the national sales tax, or are they services to individuals?

Mr. Pelissero: Okay.

Mr. Gourley: You have to say, how is that tax going to be applied and what is the design going to be? Frankly, when we get into all of that, we are really into Larry Leonard's jurisdiction and he should talk to you about how it is going to work. If you are saying, "If you take eight per cent and apply it to the professional service base, would it work this way?" the answer is yes. Under the national sales tax, how would it work? The answer is it depends on the design, who gets those services, a whole series of things.

Mr. Pelissero: As we partially identified, I think, last week when we talked about making sure, in some cases, that our financial institutions were competitive enough, how the imposition of a national sales tax would apply in terms of service charges between provinces and between banks, etc., there may be the contemplation to exempt that, yet at the same time, we may be not be contemplating—I am saying from a national sales tax point of view—an exemption for groceries, as an example.

Mr. Gourley: No, I think the federal minister indicated that the basic groceries would be exempt under the national sales tax. There was no contemplation of a tax on basic groceries.

Mr. Pelissero: What is your definition of a basic grocery?

Mr. Gourley: That is a challenge, is it not? People are spending hours on it. No, I think that is a big question. It really is a difficult question. It is intended to imply something when you say "basic," but that is a challenge and certainly not one that I have had to deal with, and I hope I do not have to deal with it.

Mr. Chairman: That $3.6 billion would not include the Ontario health insurance plan payments to doctors, I presume.

Mr. Gourley: No. Let me just check the definition of professional services. I do not believe it does. No, it does not.

Mr. Pelissero: It does not include doctors.

Mr. Gourley: It does not include health professional services. This is lawyers, accountants.

Mr. Chairman: Dentists, architects.

Mr. Gourley: I could get the detail of that definition. It does not include doctors, though.

Mr. Chairman: Mr. Morin-Strom, Mr. Pope and Mr. Ferraro all have questions on this.

Mr. Morin-Strom: We know that one of the arguments for going the national sales tax route and Ontario potentially piggybacking on to that with some kind of percentage as well is that it gets a much broader base and makes services have to pay the same weight as manufacturing so that we will not penalize manufacturing here in Ontario or Canada the way I suppose we are currently with the sales tax scheme we have.

However, ignoring whether we are going to go to a national sales tax, there is the potential here in Ontario, presumably, of broadening considerably our sales tax base. You can go directly and add services to the sales tax base.

Mr. Gourley: That is correct.

Mr. Morin-Strom: We hear the concern especially about basic groceries, for example. That would be very regressive, very unfair. The percentage of income that lower-income Canadians spend on groceries compared to higher-income Canadians would be much higher, so it would be a real tax on the poor in terms of being a regressive tax.

In looking at these categories, I see that the biggest one by far for amounts of revenue is professional services. At least in concept, one would have the idea that a tax on professional services would probably be a relatively more progressive tax, probably more progressive than the base we are using today in the current sales tax.

Have you done analysis of these various categories as to how progressive or regressive a base each of these six categories would be in terms of how much of the purchases in these categories, this revenue forgone, would be coming from lower-income Ontarians versus higher-income Ontarians or the corporate sector?

Mr. Gourley: The answer to the question is not simple, because of the fact that you have to look at this as a strict mechanical calculation. What is the total base of professional services in Ontario? Take eight per cent of that and you then say, "This is an assumed forgone revenue." You have to assume that by applying the rate to those services, you would not cause some services to migrate to other jurisdictions where there are no taxes, and therefore you would lose the revenues. You have not forgone them if they could leave the province.

Mr. Morin-Strom: We have zero revenues now.

Mr. Gourley: But you are getting personal income tax revenues from the people who are providing those services and so on. They do represent an important contribution to the economy.

In terms of the progressivity, that depends on how you design the tax. It really depends on the way you apply it. I do not know if Mr. Sweeting wants to make some comments on the whole question of the design of that. I guess my point is that this number is presented here to begin the discussion that you

are alluding to. It says: "This whole base is not taxed. What considerations are there in taxing that particular base, using the retail sales tax?" It is not to say that they escape all taxes. They pay retail sales taxes, they pay other taxes on their own purchases and so on, but they are not taxed per se under the retail sales tax.

Mr. Sweeting: To actually do what you have suggested, there is very little data available to try to determine the consumption by income of a particular kind of service. There is information available from Statistics Canada that has to be used fairly cautiously in terms of what kind of assumptions you can make. I do not believe we have done anything to any degree with respect to most of the categories you would see there.

The other point that is significant is that most of those first couple of services are consumed by businesses as opposed to people. I do not know offhand what the rough relationship between the two is, but of course, to the extent that they are consumed by business in the process of producing a good or service itself, then there is the whole question of who is paying that tax. Is it business? Is it absorbed somehow? Is it shareholders? It is the whole question, so it is very hard to take a big category like that and then try to calculate what it would mean in terms of progressivity or regressivity, because there is the whole question of how corporate taxes get passed on and who actually pays those taxes in the end.

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I think there are some intuitive things that one would think of. You are certainly not off base if you think of architectural services. To the extent that they are consumed by people, they are probably consumed progressively, as a particular example.

Mr. Morin-Strom: I think one big one may be legal services. It is hard to imagine that a significant portion at all of legal service fees are being paid by low-income Canadians. Legal services are virtually an exclusive right of the wealthy and the corporate sector in Canada. When you look at those kinds of services, the only way that low-income Canadians can have access to them is if the government is paying for them. Those kinds of professional services typically are only going to be available if the government is providing assistance or legal aid or whatever to provide them in any case. It would seem we would have a very progressive tax base if some of those services did have a sales tax applied to them.

Mr. Sweeting: As I said, I think it is possible to speculate, but it is almost impossible to prove. The data are simply not there to be able to come back and say, "Yes, you are right."

Mr. Gourley: I have circled personal services here as another category of tax expenditures, that is to say services which are not currently taxed. Those would include haircuts and the like, barbering services, hairdressing services, dry-cleaning services and all those kinds of things. That is not the entire base, but it is just an illustration of services to people as opposed to services consumed primarily by companies.

I would like to move on to the expenditure --

Mr. Chairman: You must have known you would spark a lot of interest with that chart, surely.

Mr. Gourley: I thought that the entire presentation would spark a lot of interest.

Mr. Ferraro: I will not ask a question. Just by way of comment, though: I am always suspicious when bureaucrats give me a list of moneys and never total them up, which is $13 billion.

Mr. Gourley: That is a good point. We purposely did not total them.

Mr. Ferraro: I noticed that.

Mr. Gourley: We also indicate quite clearly that economists would generally agree that they should not be added up, because you cannot remove all these taxes at once. When you do a total, you are assuming that you can envisage a situation in which you could apply an eight per cent retail sales tax across the board, from basic groceries to energy to people's haircuts, and that they would not change their behaviour to try to get their basic groceries in some other place.

Mr. Ferraro: Politicians would probably tell you you should not put half of these categories in there as well.

Mr. Gourley: We did a paper in 1986 in which we listed the entire range of tax expenditures, and in the report, the economic outlook and fiscal review, we will list all the so-called tax expenditures that exist. Part of this committee's review will be to have a look at those and give the committee's views about them. They are of interest, and our publication of those data is one way of drawing people's attention to the fact that these goods or services are not taxed. There may be good reasons, there may be historical reasons, there may be a whole series of economic reasons as to why they are not taxed or why they receive preferential treatment in the case of goods that are taxed at less than the full, normal rate.

The whole question of tax expenditures is itself an interesting analytical field. The Provincial Auditor made comments on tax expenditures and about the need for a review of them. In part, our response to those comments and to our own efforts is to publish the data so that it will be clear that we are aware and that everyone should know what goods or services are not being taxed. That represents just as much a part of the government's policy as taxing a particular good or service at a particular rate. So it is two sides of the same coin. We call them tax expenditures; they represent revenues forgone.

Mr. Chairman: Carry on.

Mr. Gourley: Did Mr. Pope have a question?

Mr. Chairman: I think he forwent.

Mr. Gourley: Okay. The other pie, the expenditure pie, is our distribution of expenditures. Some 67 per cent of total expenditures made by Ontario go to social programs. Health services have a 33 per cent share. That is the Ministry of Health. There are some other health services provided in other ministries, but essentially the health services provided through the Ministry of Health take up fully one third of the budget. Generally, that share is increasing. We talked earlier this morning about providing last year's chart and this year's chart. That share is definitely increasing.

Education in colleges and universities and elementary and secondary schools takes up 19 cents out of every dollar spent by the province. Social services and income support take up 15 cents out of every dollar. The economic development and resource expenditures, the ministries of Natural Resources, Agriculture and Food, Energy and so on, take up about 16 cents of every dollar. The justice field, the ministries of the Solicitor General, Attorney General and Correctional Services, take up about three cents of every dollar spent by Ontario. The administration or general government expenditures represent about three per cent. Public debt interest costs take about 11 cents out of every dollar spent by Ontario. We do not have last year's number here, but we do have it from 10 years ago.

Mr. Chairman: We have last year's numbers in front of us. We are up one per cent in health and one per cent in social services and down one per cent in resources, economics and general government.

Mr. Gourley: This slide is from 10 years ago. The slide that I just showed had health share at 33 per cent. In that time, you can see a more dramatic shift. You see a 33 per cent share today as compared to a 28 per cent share of the total provincial budget 10 years ago. You see today an 11 per cent share of public debt interest costs as contrasted with nine per cent 10 years ago.

Mr. Ferraro: Can I ask a question on that?

Mr. Gourley: Yes.

Mr. Ferraro: I heard the Treasurer (Mr. R. F. Nixon) indicate that we do not owe any foreign debt. We do not pay any foreign entity interest. Is that correct?

Mr. Gourley: That is correct.

Mr. Ferraro: I guess my question is, how relative a factor is that? I realize it has gone up two percentage points, but if in fact we are paying Ontarians or Canadians—and you can clarify that for me—how much of that actually comes back into the coffers in the form of taxation? Is it a substantive figure or was the majority of our debt from 1978-79 Canadian or Ontarian debt to begin with?

Mr. Gourley: Generally, Ontario has had a relatively low level of foreign debt. I would caution, as well, that is information that Don McColl, the assistant deputy minister, office of the Treasury, can provide, but I would say that the nine per cent versus the 11 per cent is an important consideration. It bears on the total debt which the government is supporting. Changes in that number reflect a change in the government's fiscal flexibility. To the extent that the number grows rapidly, it is going to squeeze out the government's ability to provide for other programs.

I would only contrast it with the federal government, where that same share is in the order of 25 to 30 per cent of the total expenditure. The federal government has a tremendous challenge in dealing with its public debt interest costs. Ontario has 11 per cent, again, not a trivial proportion of the total budget, going to public debt interest costs. Those are important measures. They are important statements, if you like, about the fiscal flexibility that the province has to provide any programs.

To the extent that debt increases and the cost of debt increases over

time, the government's ability to support that debt is changed and its capacity to provide other programs is affected greatly by those costs.

I have the contrast with the Ministry of Health public debt interest costs. I think the services compared from 11 per cent to 15 per cent, so there have, again, been shifts within that pie over the 10-year period.

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I would like to move on, if I could, to the growth in the Ministry of Health expenditures over the past decade. The shift in the share reflects the growth in the ministry's budget, beyond the total growth in expenditure, certainly, in the government's programs, and we can now see $12.6 billion being accorded to the Ministry of Health in 1988-89, this fiscal year, as contrasted with $4 billion. A lot of things have happened in that 10-year period, but certainly the growth of Health, the share that it represents of the total provincial budget, is an important factor and represents significant changes in the priority of the resources accorded to the Ministry of Health.

Within that package, and since the time is pressing on here, I would like to go on to the shifts within the Ministry of Health itself.

Mr. Chairman: There is a very interesting line in that last chart, though. That line across the middle is real 1981 dollars. In other words, there has not been an incredibly large growth. Is that fair?

Mr. Gourley: This is the average.

Mr. McElwain: That line is expenditures after taking inflation into account. Expenditures increased by 63 per cent in real terms, after taking inflation into account, over that 10-year period.

Mr. Ferraro: "Real" means with inflation.

Mr. McElwain: During that period, the economy grew by about 43 per cent, so health care is growing faster than inflation and faster than the rate of growth of the economy.

Mr. Chairman: Thank you.

Mr. Morin-Strom: What is this line again? There is no 63 per cent increase in that line.

Mr. Chairman: No, that would be the difference.

Mr. McElwain: Our examination is that it is 63 per cent. We can take another look at that.

Mr. Morin-Strom: You have it going from about $5.5 billion up to $7 billion. Thare is no way that is a 63 per cent increase.

Mr. Chairman: That would be more like a 20 per cent increase.

Mr. Gourley: The Ministry of Health's budget shares 10 years ago are represented in this particular pie chart. It shows that the drug benefit program took two per cent of the Ministry of Health's budget, the Ontario health insurance plan took 26 per cent and hospitals received 50 per cent.

In the 10-year period since then, the drug benefit program has gone from a two per cent to a five per cent share of the ministry's total budget, OHIP has expanded from 26 per cent to 32 per cent, whereas the hospitals budgets now represent 43 per cent versus 50 per cent.

Within the budget itself, I talked about the share in the total provincial budget changing; that is to say, the Ministry of Health's total budget is shifting within itself from 26 per cent to 32 per cent for OHIP, reducing the share available for hospitals from 50 per cent to 43 per cent. That shift is taking place within the total Health budget itself.

Mr. Pelissero: I just have a question. Our page 11 is "Provincial losses due to federal EPF cuts since 1982." Were you going to that one next?

Mr. Gourley: Actually, I was going to skip a couple more to make sure that we covered all of them in the time, but I can go back.

Mr. Chairman: It depends on whether you want us to fed bash.

Interjection.

Mr. Chairman: Let's have Mr. Morin-Strom first.

Mr. Pelissero: I will stand down then.

Mr. Morin-Strom: In this one, we know one of the big costs of health care is what we pay doctors. Where are doctors? Is that the OHIP increase?

Mr. Gourley: OHIP.

Mr. Morin-Strom: Are the doctors the single, biggest reason for the big shift from 26 per cent to 32 per cent of OHIP?

Mr. McElwain: Yes, they are more than 90 per cent of the recipients of OHIP payments.

Mr. Morin-Strom: Okay. The hospitals themselves, in terms of running the hospital, nursing staff, all the services that are being paid for separately from the doctors, are in the hospital budget. Am I correct that there are no payments actually to doctors under that big hospital category?

Mr. McElwain: There are a number of doctors who are on staff in hospital budgets.

Mr. Morin-Strom: Administration or chiefs of staff.

Mr. McElwain: That is correct. The hospitals' numbers refer to the operation of hospitals' transfer payments, which is a line in the estimates that are tabled in the Legislature each year; but all those doctors who receive their payments through the Ontario health insurance plan system are in the OHIP part of the pie.

Mr. Morin-Strom: Another big category that has been of concern is the cost of drugs in the province. What has been the impact in terms of percentage increase in drugs? Would they be in the other?

Mr. Gourley: No, the Ontario drug benefit program—the ODB—is shown here as two per cent 10 years ago and now represents five per cent of the

share. The growth in that program is illustrated in our budget paper. Mr. McElwain, perhaps you have some number there to indicate the growth. It has been substantial in that particular program.

Mr. McElwain: Yes. The drug benefit plan was $72 million back in 1977-78. That has increased to almost $500 million in 1987-88. That is an increase of 590 per cent. That program was just getting under way about 10 years ago and there have been substantial changes in the coverage of that program as well as in the utilization of that program.

Mr. Morin-Strom: Are there not drugs in other categories than just under that one? In particular, would drugs not be a big part of the hospital expenditures within the hospitals themselves?

Mr. McElwain: That is very similar to the picture we just talked about for physicians. Those drugs that are paid for in the budgets of hospitals would appear in the hospitals' part of the pie, but those drugs that are paid for through the ODB plan for seniors and for those who are on social assistance are through the ODB plan.

Mr. Morin-Strom: Thank you.

Mr. Chairman: I am not sure that we are going to be able to finish this today. I do not know whether you people can come back at a future date, because I know that you have sparked a lot of interest in a lot of things. Mr. McCague had a question.

Mr. McCague: I am not sure it is the right question, but if you were to have adjusted the 1978-79 figures to inflation, would that have made any difference?

Mr. Gourley: Not to the relative shares. Using a shares argument allows you to forget about inflation.

Mr. McCague: I could ask more questions but that is sufficient for now, Mr. Chairman.

Mr. Chairman: It being the case, did you want to ask your question on —

Mr. Pelissero: I would like to ask something on the other chart, if you could just take us through that one.

Mr. Gourley: We mentioned at the outset of the presentations that the federal share of Ontario's revenues has dropped from a 23 per cent share 10 years ago to a 15 per cent share in the current fiscal year. We had a brief discussion on that, and I indicated that the federal government had taken a number of actions to constrain or limit its transfers to the province.

This table, which is a repeat of a table that was in last year's economic outlook and fiscal review, but updated by current data, illustrates the impact of those actions. It indicates what the impact has been on Ontario's programs which are shared with the federal government and by far the largest impact. It also, by the way, provides the total impact across all provinces but then indicates, in the far right-hand column, the total impact on Ontario.

Last year at this time, I believe we indicated that the cumulative

impact of the federal government's changes to the escalator built into the per capita payments under established programs financing for health and post-secondary education had substantive impacts. Caps that were provided on post-secondary education transfers, and elimination of the revenue guarantee compensation features which had been in earlier fiscal arrangements with the feds, all had impacts on Ontario's revenues from the federal government.

As indicated here, of a total impact in Ontario of over $1 billion for next year, approximately $568 million will be as a result of the changes in the established programs financing, $126 million as a result of the changes in the post-secondary education transfer caps, and $494 million as a result of the elimination of the revenue guarantee.

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This was a presentation that we provided and we have just updated it here. It bears on the context of health because the major source of change in the federal government's transfers to us was this reduction of this two per cent on the EPF per capita transfers under the program which is designed to support both health and post-secondary education. That is why it is in this section on health.

Mr. Chairman: It is getting worse and worse.

Mr. Pelissero: That is right.

Mr. Ferraro: Does the EPF category indicate total federal government expenditures to the provinces—just in the categories?

Mr. Gourley: No. These are the losses under the programs.

Mr. Ferraro: These are the losses.

Mr. Gourley: These are the losses under the programs.

Mr. Ferraro: Okay.

Mr. Gourley: The transfers themselves are a separate number.

Mr. Ferraro: Do we have a chart for that?

Mr. Gourley: Not here today. Mr. McElwain, do you know the estimates for the federal—

Mr. McElwain: Yes. This year, the cash payments under EPF were forecast to grow this year by four per cent, from $2.8 billion to $2.9 billion, approximately.

Mr. Gourley: So that four per cent growth is contrasted with the growth in the Ministry of Health expenditures of—

Mr. McElwain: Close to 10 per cent: 9.7 per cent.

Mr. Gourley: In the current budget 9.7 per cent. That is, I think, in itself a statement about the changes that Ontario has to deal with in funding or financing the cost of health care.

Mr. Ferraro: What I am trying to get at, and I appreciate that

information—and I did not phrase it properly—is, do we have any way of knowing, when the federal government carves up the pie among the provinces, total expenditures—

Mr. Gourley: Across all provinces?

Mr. Ferraro: —from its standpoint? Which province gets how much?

Mr. Gourley: It is basically under a formula so that we do know—

Mr. Ferraro: Do we have those relative figures?

Mr. Gourley: There are estimates provided of the total expenditures—

Mr. Ferraro: That includes all expenditures, not just EPF programs, or would that be one and the same?

Mr. Gourley: It was just be for the established programs.

Mr. Ferraro: Okay. Is there another pool that the federal government has at its disposal?

Mr. McElwain: Yes. The largest pool is the federal equalization program.

Mr. Ferraro: Okay. Do we have that? That is what I am interested in. I will tell you why, and I do not want to promote regionalism here, but the allegation has been made by many people that some parts of the country are getting an unfair share of the pie. I want some statistics, if I can, to indicate that or to dispel that.

Mr. McElwain: There will be a significant amount of data on that in the grey book when it is published next week.

Mr. Ferraro: That is fine. If it is in there—great.

Mr. Chairman: The equalization payment we do not recover from the federal government, and—

Mr. McElwain: No.

Mr. Chairman: —what other provinces? Alberta does not and British Columbia.

Mr. McElwain: That is correct. Last year there were approximately $6-billion worth of payments and seven provinces received them—Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Manitoba and Saskatchewan.

Mr. Ferraro: Thank you.

Mr. Morin-Strom: On this chart, are there not some changes that have been made by the federal government which have increased revenues to the province? I do not know all the programs but one I do know. For example, there is one in the forestry area, a funding program where the federal government previously did not commit funds to reforestation in Ontario and it started a program, I think, four years ago in that area.

Mr. Ferraro: It was an election year. You have to dispel that this year.

Mr. Morin-Strom: It seems to me it was a $100-million program, something like that. There may be other programs as well. Are there other areas where the federal government is providing more funds than it would have been providing back in this base year of 1982-83?

Mr. Gourley: I think the shares argument tells a fair bit. Federal transfer payments used to be 23 per cent of our revenues. They are now 15. The general trend seems to be to restrain. The federal government has indicated in its own budget paper that its object is to reduce its own deficit. They have not said the way they are doing that specifically, but their policies have indicated they want to restrain their level of commitment to various programs that they have.

Mr. Morin-Strom: Is the forestry agreement an example? It may be small in relative dollars, but are there other examples which go in the other direction?

Mr. McElwain: There have been continuing forestry arrangements over the period and the forestry arrangements tend to be time-limited. When they are over, they have to be renegotiated. I am not really familiar with whether the new forestry agreement is larger than the one it replaced.

The one example, though, that perhaps does fall in line with what you are referring to is the Canada assistance plan, which would have increased over that 10-year period, because the Canada assistance plan is the federal government reimbursing 50 per cent of our social assistance and social service costs. Since the province has been increasing expenditures in that area significantly, the federal reimbursements, under the Canada assistance plan, have increased as well, but not enough to make up that change in the declining share of federal transfers over the period.

Mr. Morin-Strom: Do you know how much, in dollars, we are talking about for Ontario under the Canada assistance plan?

Mr. McElwain: I do not have the numbers right in front of me. We can get them.

Mr. Gourley: It is another one of those topics where you can go on and it is hard to limit the universe. For example, many federal taxation policies affect our revenues. When they reduce their personal income tax rates, because of the way our personal income tax is calculated, our personal income tax revenues drop. This is not a complete list. This just happens to be the list of specific actions that were taken, and in terms of additional spending by the federal government and the province, it is a very broad-range program.

Mr. McElwain: Perhaps an example of the increase in Canada assistance plan payments is that our forecast for this year at $1.466 billion is 12.3 per cent higher than the Canada assistance plan revenue in the previous year. That is growing faster than inflation and it is growing generally in line with our spending for social assistance programs.

Mr. Gourley: I would say that just under established programs financing alone, the federal government's share has dropped from a peak of about 52 per cent or 53 per cent to in the order of 39 per cent or 40 per

cent. Health and post-secondary education spending is a very large share of our budget, and the federal government's share has dropped tremendously in support of those two very large areas of our budget. That has been overriding. It is not to say that there has not been some increase in some particular area, but it certainly has not dominated to the extent that the reductions have.

Mr. Morin-Strom: Am I correct in my assumption in my understanding of this that as well as the date in terms of when these programs were cut or eliminated by the federal government, out of the three categories you are showing, the first two categories, the elimination of revenue guarantee compensation and the six and five caps, were in fact impositions of the Trudeau administration, and only the third category is under the more recent Conservative administration?

Mr. Gourley: In those series, starting with 1982-83, one could go back a fair distance and find the point at which all those programs were introduced, and this happens to be the point at which many of those programs are beginning to be cut back and limited. In other words, the programs were started and the support for those programs is not continuing. That is the basic point the analysis is attempting to make, that the share of the program is not continuing.

That means that Ontario is going to have to shoulder a larger share of program expenditures that were started under a different assumption about them, a different sharing arrangement, from a peak of 53 per cent in the early years of the program to the point where it is now less than 40 per cent.

Mr. Pelissero: Wait for free trade.

Mr. Morin-Strom: We know that the Treasurer is trying to use this for using the federal government as a whipping boy here in Ontario.

Mr. Pelissero: The facts are there.

Mr. Morin-Strom: But in fact, being nonpartisan on this issue, I note that in terms of the total figure for Ontario, $5.2 billion, about three quarters or 75 per cent of it is the result of the Trudeau government and can be blamed on the federal Liberals, while about one quarter can be blamed on the federal Conservatives.

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Mr. Chairman: This chart is going to be carved up and be the subject of three different points of view.

Mr. Gourley: At least.

Mr. McCague: That is a fair point.

Mr. Gourley: I would like to spend a few minutes on the per capita spending growth across Canada. This chart shows that on a per capita basis, Ontario's expenditure growth is leading that of all other provinces. The average across Canada of 5.3 compares to Ontario's. This is over a three-year period, 1985-86 to 1988-89. The average across Canada over that period has been an annual increase of 5.3 per cent and Ontario's has been 7.8 per cent. That has meant that over a similar period, Ontario's ranking with respect to its total expenditures per capita has moved from eight to seven. The rank is

still seventh. Ontario is still seventh and the gap is closing with that higher rate of per capita spending.

Mr. Ferraro: When we figure out a per capita spending, for example, one of the calculations that we take is the interest on debt, which is exclusive of Ontario Hydro debt, I suspect.

Mr. Gourley: Yes.

Mr. Ferraro: Is that uniform among the other provinces as well?

Mr. Gourley: We definitely make an effort to standardize the comparison so that there are no distortions, because other provinces are organized differently than we are. Certainly, I think public debt interest is common and the analysis has been applied in a constant way.

Mr. Ferraro: This might be a dumb question, but for example, we have a substantive, accumulated debt for Ontario which is about $38 billion, something like that, and I think Hydro is equal to or close to that.

Mr. Gourley: Yes.

Mr. Ferraro: Are there provinces that would consider the Hydro debt, for accounting purposes, as part of the total debt of the province?

Mr. McElwain: No. This would be done on a comparable basis, so the interest rate would be comparative.

Mr. Ferraro: I realize you would adjust it when you do these charts, but my question is, when treasurers of other provinces present the fiscal statement to the people, are there provinces that would include a large public corporation such as Hydro?

Mr. McElwain: Not, to my knowledge, in the main budget document.

Mr. Ferraro: Does Quebec separate its, for example?

Mr. McElwain: My understanding is that Quebec does it in a way similar to Ontario.

Mr. Gourley: Again, that particular sort of interjurisdictional accounting treatment is one that Don McColl, the assistant deputy minister, office of the Treasury, who is also responsible for the accounting and financial reports of the government, might have more information on. He certainly would have more information on the treatment of debt and levels of debt across Canada than we would.

Mr. Chairman: There are no provinces that control their hydros.

Mr. Ferraro: I realize that.

What I was going to say was, next time they come back, assuming it is the same people, can we have a chart that would show the accumulated deficit over a 10-year period? I know you have the per capita spending and so forth, but you do not have the accumulated deficit rise.

Mr. McElwain: We have debt per capita coming.

Mr. Ferraro: You have the per capita, but I am just talking about the total, in simple terms.

Interjection.

Mr. Ferraro: No, but you have it on the per capita instead of the aggregate amounts.

Mr. Gourley: We have one slide on Ontario's own-purpose debt as a share of the economy over a 10-year period, and it shows that it is declining.

Mr. Ferraro: The total accumulated debt has gone up. There must be a simple chart that says, "Now it is at 38 per cent and in 1965 it was this."

Mr. Gourley: We have a table in the back of the budget that shows that for a 10-year period.

Mr. McElwain: That is in the grey book, as well.

Mr. Ferraro: Is it there?

Mr. Gourley: It is also included in the back of the economic outlook and fiscal review.

Mr. Ferraro: Which is coming out next week. Okay, fine. Thank you.

Mr. Chairman: Both resolutions in the House today seem to be somewhat motherhoodish, so maybe we will not have a vote. Let's carry on until we hear the bells.

Mr. Gourley: I would like to go on to total expenditure as a share of the economy. This is a rather expanded scale, 15 per cent at the bottom and 16 per cent at the top, so you can see that, over this period, Ontario's expenditure as a share of the economy is staying within this range. It is obviously declining over this period, but it is staying within a fairly narrow range of 15.4 to 15.7 per cent of the economy.

These are measures which are used to assess, to establish the fiscal framework, to assess the fiscal performance of a province, to assess its ability and its capacity to support the programs.

Capital expenditures here: we have a scale of billions of dollars on the left-hand side. It has moved, over the 1984 to 1988 period, from $2.1 billion to $2.8 billion for all of the capital expenditures by the province.

Ontario's deficit has followed this pattern over that period of time. Again, we have billions of dollars here and it has moved from a peak of $3.2 billion in the 1982-83-84 period to 1988-89 where, in the budget this year, it was established at $1.6 billion or $1,544,000,000.

Mr. Chairman: Was this what you were looking for, Mr. Ferraro, when you added up those figures?

Mr. Gourley: It is not the total debt.

Mr. Ferraro: It does not have the total, Mr. Chairman.

Mr. Gourley: This is the addition to, but it does not have the total.

Mr. Chairman: No.

Mr. Gourley: Ontario's net capital requirements have followed this pattern, moving from $2.5 billion down to $500 million in the current budget. We have the operating position, which is a measure which has been introduced to highlight the difference between the revenues coming in on a day-to-day basis and the cost of those programs which are going out on a day-to-day basis. Over the 1984 to 1987-88 period, Ontario incurred an operating deficit and we are now at the point where, as a result of this budget, there is an operating position of over $1 billion.

That means that the ongoing programs are being more than supported by the ongoing revenues that are coming in and that $1 billion is then able to be used as a contribution to the financing of the capital expenditures that are being undertaken.

There still is borrowing going on, in spite of the operating surplus, but it is not as great as it would be without this--

Mr. Chairman: That is a principle that the Treasurer is very wedded to personally, is he not?

Mr. Gourley: This reflects a pay-as-you-go fiscal approach that the Treasurer has outlined in the budget.

Mr. Pelissero: That is even with a $1 billion left from the federal government, George.

Mr. Gourley: Public debt interest, as a percentage of revenue, has been moving from 10 per cent in the 1978-79 period to a peak in 1984-85, to the point where, over the past few years, it has been declining to the level it is at now, about 11 per cent of revenue.

Again, that is another measure that one can use. How much is your revenue inflow? How much are your revenues supporting your public debt interest costs?

Mr. Ferraro: It started going down in 1985-86.

Mr. Pelissero: In May.

Mr. Chairman: Did you realize that, Mr. McCague?

Mr. McCague: I saw that. Yes, we planned well for you, did we not?

Mr. Gourley: Looking at deficits per capita, another measure shows Ontario with the second-lowest debt per capita for this year. I have excluded deficits per capita.

It is one measure. All of the darts can be adjusted to the right or they should all be moved over, so this is British Columbia, this is Saskatchewan and so on. So Ontario is not Quebec, in spite of the labelling on the slide.

I have a corrected slide of the earlier one--it is unfortunate that Mr. Morin-Strom is not here to see this, but we will provide it to committee members--which shows the increase of 63 per cent, in real terms, of health spending, as contrasted with 43 per cent growth in the economy, in real terms, over this period. The other side was just plotted incorrectly.

Mr. McCague: With hospitals suffering.

Mr. Pelissero: Most of them went into their foundation funds.

Mr. Gourley: With hospitals with a lower share of the total Ministry of Health budget.

Mr. Chairman: We do not have that one. You will provide us with that one.

Mr. Gourley: Yes, that was just produced while we were speaking here because of the problems with the earlier slide, because it did not look like a 63 per cent growth in real terms and, in fact, it was not plotted correctly.

Mr. McElwain: Mr. Chairman, in the outlook document there will be an appendix on health care spending with all of the data and the graphs.

Mr. Chairman: I appreciate it very much. Obviously you have kept us in rapt attention for the last two hours and we appreciate what you have done. It has been very well done. I hear Mr. Pelissero saying it and I echo it. We invite and, as usual, expect your help and co-operation as we work through this. You have been very, very helpful today.

Mr. Gourley: Thank you very much.

Mr. Chairman: Thank you. You have worked through your presentation, I guess, at this stage. As I indicated at the opening, we have invited Mr. Kwinter to appear next week. He may or may not be back from Montreal and the clerk will be in touch with your ministry as to whether we will be having you or inviting someone from your ministry next week or the week thereafter.

Mr. Gourley: Okay.

Mr. Chairman: Mr. McCague?

Mr. McCague: At the beginning of your remarks, you mentioned that the advertisement for input to this committee had been placed in most of the major Ontario dailies.

Mr. Chairman: It has, in fact, been placed in all the daily newspapers in the province. I stand corrected if I said "most."

Mr. McCague: Thank you.

The committee adjourned at 12:02 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ORGANIZATION
PREBUDGET CONSULTATION

THURSDAY, DECEMBER 8, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Substitution:
Dietsch, Michael M. (St. Catharines-Brock L) for Mr. Kozyra

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treaury and Economics:
McColl, Donald S., Assistant Deputy Minister, Office of the Treasury
Watson, Robert J., Director, Finance Operations Branch
Christie, Robert D., Director, Finance Policy Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 8, 1988

The committee met at 10:06 a.m. in room 151.

ORGANIZATION

Mr. Chairman: I would like, before we get started this morning, to raise a couple of matters which the committee needs to deal with and perhaps give us some direction.

This week we have had two bills referred to us, the Tobacco Tax Amendment Act and the Retail Sales Tax Amendment Act.

I have made some inquiries and would propose to the committee that so far as the Tobacco Tax Amendment Act is concerned, you might well wish to invite the Auditor General to appear to explain some concerns that he has raised subsequent to first reading of the bill.

Secondly, perhaps the Minister of Revenue (Mr. Grandmaître) could be invited to propose any solutions that he may have to that. I understand that the committee has already received some proposed amendments in so far as that is concerned. That could conceivably be done next week.

I have also been informed informally that there has been some understanding by the House leaders that we would be assigned six sitting days which could include that if we did that next week. Otherwise it would apparently involve the month of January to deal with this bill and the Retail Sales Tax Amendment Act. I do not know much more than that. Mr. McCague, I saw your hand; perhaps you can enlighten us a little on that.

Mr. McCague: I just wondered why you would want to have the Auditor General here.

Mr. Chairman: Because the Auditor General has indicated some concern about tax not being collected on tobacco products. I understand the proposed amendments would have to do with that. We might wish to question him further. We may not. It is up to the committee. I just thought you might wish to question him further in that he raised the issue.

Mr. McCague: Are you referring to the Provincial Auditor?

Mr. Chairman: Provincial Auditor; I am sorry.

Is it the wish of the committee that we should invite the Provincial Auditor and the Minister of Revenue and deal with that next week? Would that be suitable? Is there any comment on the proposal with regard to the Retail Sales Tax Act? We have already, of course, even as recently as last week, heard some evidence concerning that act, which Mr. Morin-Strom raised some interesting questions on, but frankly I do not know how much more there is to deal with.

Mr. McCague: The program you outlined is the one I understand is agreed to by the House leaders: six sitting days in January for consideration of the two bills.

Mr. Chairman: The chair would have thought that there was not a great deal to deal with the Retail Sales Tax Act. Maybe you can enlighten me on what more we can do.

Mr. Morin-Strom: I would think that public hearings might be desirable on the Retail Sales Tax Act with the opportunity for interested groups to be able to make presentations with respect to that bill. I think that is a very critical portion of the budget from last year and a very significant tax increase. Of course, there is considerable concern about where we may be going in the whole area of sales taxes with the possibility of a national sales tax following shortly. I think we should open up the opportunity to have the public make presentations to the committee.

Mr. Chairman: The committee, I remind you, has already planned to have public hearings on our prebudget activity, which we have already placed advertisements for. We plan to have those hearings take place in the month of January. Certainly, witnesses can address the proposed Retail Sales Tax Act. I have just been handed a list of 13 witnesses who are prepared to appear in January concerning a budget that we presume will occur in 1989.

Ms. Hart: That puts us in a big timing crunch because our budget is due some time in April. I suspect that if we are to have any impact at all in prebudget consultation, and if we devote the month of January to hearing on these other two bills, there goes our impact. It is a decision for the committee to make. Perhaps it is the committee's wish that it does not want to participate in prebudget consultation. It seems to me that is what it involves.

Mr. Pelissero: I guess, just to reinforce what Christine has said, we have advertised; we have 13 submissions. Whether we have been notified informally or if we have not had any formal notification, I think it is still the committee's decision as to how we want to deal with the two pieces of proposed legislation that have been referred to us.

Knowing that it looks like we are going to be here all of January, I am assuming then that we are going to have seek additional time to sit. Right now, we are only authorized to sit on Thursday mornings. If the proposition is to take five or six of those days to deal with the two pieces of legislation, we do not have prebudget consultation. Who wants to send the letters to the 13 people who have expressed an interest in partaking in the prebudget consultation, which is one of the mandates of the committee?

I do not know whether we want to reserve judgement on what we want to do with the other two pieces of legislation, and how we want to handle that, to a little later this morning or until next week, because I am not happy with basically having announced prebudget consultation, having witnesses say they are willing to appear and then there being a possibility of that not happening, particularly if we are not given additional sitting time, unless we sit Monday to Thursday.

There is certainly no problem from our party in terms of staffing that if that additional time is given, but I am not sure whether the two opposition parties would be able to do that.

Mr. Chairman: I have just been informed this morning, because I made inquiries, that arrangements are to be made for us to be given that time. Of course, my first concern was that we do not even have six sitting days in January to sit.

Mr. Ferraro: Just in light of the facts as I understand them and as you just indicated, if the House leaders indeed have indicated that we are going to have six days of public hearings, then I guess there is not a hell of a lot this committee can do about it, quite frankly, except to say yes or no, and the world will evolve according to the world as it should evolve.

But I would want to put on record that the reality is that we are collecting the sales tax. The probability of its being rolled back is nonexistent as far as I am concerned. I hope the members of the committee will agree with that. The reality, and I am fully prepared to take my medicine, is that everybody who comes is here is going to say, "You made a mistake and should not have done it." Fine. I will take my medicine, although, in my view, I think we can justify the sales tax increase. I would seriously question the need for six days. What is the magic number? It may be three, but--

Mr. Chairman: Six days for both, apparently.

Mr. Ferraro: Six days for both? Irrespective, Mr. Chairman, I still say, in light of the agenda of this committee vis-à-vis the 1989 budget, which is probably more important, considering the fact that sales tax has already been collected for a good part of the year, that it lacks some substance from a logical standpoint to spend six days on something that is already happening, that is a part of life.

Just to conclude, I would say that three days is much more acceptable and indeed we should be devoting more attention to 1989's budget.

Mr. Chairman: I thought I should raise this because it is obviously of great concern to the committee. It may be appropriate for us to stand this matter down till later this morning so that we can have better information as to exactly what the House leaders have agreed to. We do have some witnesses who are prepared to speak to us about some matters this morning. If it is agreed by the committee, we could look at this matter later this morning.

We have with us from the Ministry of--

Mr. Morin-Strom: On a point of order, Mr. Chairman: With respect to the agenda for today, as I understood when we adjourned last Thursday, we had not completed the submissions from the Treasury officials with respect to tax changes in particular and that it was agreed that, in order to accommodate some of the desires from government members particularly to be able to pursue thoroughly all the matters that were in the written presentation to us, we would not attempt to get through that agenda and that those officials would be back with us today to complete that presentation.

I see that you have before us today a new set of witnesses, although also from the Ministry of Treasury and Economics, and it would appear that the agenda has been changed. I would have thought that would have normally happened through the subcommittee, which is responsible for such agenda matters, but particularly when the committee as a whole had determined what I thought was going to be a continuation of last Thursday's presentation.

It would appear that you have made quite a change in the focus of today's presentation. I would ask you what exactly has happened during the interim period, Mr. Chairman.

Mr. Chairman: I apologize if I have misunderstood the directions of the committee. I do recall that we discussed exactly what you were saying, but

my recollection was that in the last 20 minutes or so of the presentation last week we did finish the material that was before us. Maybe we did not finish it as thoroughly as you would have liked. Again I apologize, but on the basis of that and, without readdressing that issue, I just presumed that we had finished with them. We can certainly invite them back, if it is the wish of the committee, to look at that more thoroughly.

Mr. Morin-Strom: At least in my mind, I did not think we had completed that, and I thought we should give them the opportunity to complete their presentation.

Mr. Chairman: I know they indicated they were prepared to come back and I apologize if the committee members thought they would be back this morning.

Mr. Ferraro: Briefly on Mr. Morin-Strom's point of order: I have to concur to some degree with what he said. However, while I fully acknowledge that we were going to get some more information—personally, I wanted some more information, and Hansard will perhaps indicate this—it was my impression that the committee or the subcommittee was going to determine whether indeed we wanted them back again. I fully acknowledge that was discussed. To be quite honest, I certainly do not recall them saying that you were going to be back at the next meeting, although I do not recall them saying that you would not be.

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Mr. Chairman: I think last week at this time our thoughts were that the review of the economic outlook would be available by now; apparently, it will be available next week. My thinking was that we would be having the whole review looked at. Frankly, when I became aware early this week that that was not the case, we made these other arrangements, because those members of the Treasury who are most directly involved with the review are not overly inclined to be discussing it before it is released in the Legislature. While we had some information last week, it may not be considered by everyone to be quite proper for us to be looking at some of that material prior to having it tabled in the Legislature. That has been a matter of discussion with Treasury officials.

Again, I apologize if I misinterpreted the will of the committee. I do not think it was very clearly discussed right at 12 noon, and my feeling was that all of the material was covered to some extent. But let's get them back.

Mr. Morin-Strom: As I recall, at 12 noon it was absolutely impossible to discuss the matter, because bells were ringing. We had a vote. I know I had to leave there when the bells started ringing for that vote, between 11:55 and 12 noon.

If you wrapped up some discussion at that point, it really should have gone to that subcommittee. Hopefully, the subcommittee will have the opportunity to discuss the possibility of bringing those with us.

Mr. Chairman: Okay. That being the case—unfortunately, they are obviously not here today—we will certainly make sure that they are back as soon as possible.

Perhaps we could get down to the business at hand. From the Ministry of Treasury and Economics we have with us Don McColl, who is the assistant deputy

minister; Robert Watson, director of finance operations branch; and Robert Christie, who is the director of the finance policy branch.

In view of what I have just said, members of the committee will be aware that some of the material we have to deal with regarding prebudget activity is not available but hopefully will be available within the next few days.

These gentlemen have agreed on short notice to appear before us to discuss with us borrowing practices that this province is engaged in; most particularly, the borrowing of Ontario Hydro, which unfortunately is the great portion of our public debt. I thought it would be valuable to the committee to be looking at that particular aspect of our economy, something that we perhaps have not given enough focus to in the past.

Gentlemen, I appreciate your coming on short notice and presenting this to us. Please lead us through your brief.

PREBUDGET CONSULTATION

Mr. McColl: I would just like to make a clarification. This is Mr. Watson on my left, and Mr. Christie is on my right. I also have with me two other staff members: Wendy Tysall, who is the director of the financial information and accounting policy branch—because there was a question on accounting that cropped up last week, as I understand it—and another researcher and economist, Helena Przybycien, who is familiar with most of these numbers.

We welcome the opportunity to try to provide any information we can. We have prepared half a dozen charts, which have been distributed. I will ask Mr. Watson and Mr. Christie to go through those quickly with observations on the salient points. Then, maybe we could just pick up the discussion as we go along, if that is your wish.

Mr. Chairman: That sounds excellent.

Mr. Watson: Members of the committee, the first chart I want to discuss is the "Composition of Ontario's Own-Purpose Total Debt." You will see from the chart that it consists of three components.

Mr. Ferraro: Could I interject to ask exactly what "own-purpose" means?

Mr. Watson: That is a debt the province has issued for its own purposes as opposed to, say, for Ontario Hydro purposes.

Mr. Ferraro: That is the only distinction, then: Ontario Hydro vis-à-vis the province?

Mr. Watson: That is right.

Mr. McColl: If I may, Mr. Chairman, we have moved over the last few years to try to simplify our various debt presentations. I acknowledge that in the past we used to talk about funded debt and unfunded debt and publicly held debt and de-dah-de-dah. Now we have narrowed it down. Where we talk about debt, we are talking about the province's total debt. We will make the distinction with respect to the "own-purpose" being the government and other purposes being generally Hydro.

Mr. Ferraro: Wait a minute. When you qualify it by saying "generally Hydro," what else would there be besides Hydro?

Mr. McColl: There may be a little bit of Canada Mortgage and Housing Corp. stuff.

Mr. Ferraro: We would borrow for federal—

Mr. McColl: We might borrow from CMHC. We have in the past.

Mr. Ferraro: Okay. Thank you.

Mr. Watson: The first component to deal with is the smallest one there, the public funded, which totals $1.3 billion or 3.5 per cent. As its name implies, that is the amount held in the hands of the public. It represents debentures that have been issued or Treasury bills.

The next component is the nonpublic funded. This totals $27.5 billion or 74.3 per cent of the total debt. That comprises borrowings from the Canada pension plan, the teachers' superannuation fund and the Ontario municipal employees retirement system fund; that is the bulk of it. There is about $340 million borrowed from the federal government with respect to previous municipal works assistance programs or other federally supported programs, where the borrowing was done some years in the past.

Mr. Haggerty: For capital projects and so on?

Mr. Watson: That is correct.

The largest component there, of course, is the Canada pension plan, which is about $14.4 billion. The second-largest component is the teachers' superannuation fund, which is about $11.5 billion.

That represents the total of the funded debt. In addition, the third component is what is referred to as unfunded debt. That is a total of $8.2 billion or 22 per cent of total debt. The two largest components there are borrowings from the public service superannuation fund, which total about $5.1 billion, and borrowings from the superannuation adjustment fund, which total about $1.7 billion. It also includes the Province of Ontario Savings Office. The outstanding amounts there are about $1.1 billion.

The total overall own-purpose debt outstanding at March 31, 1988, is $37 billion.

Mr. Dietsch: Could we back up a second? What was the $1.7 billion again?

Mr. Ferraro: Superannuation adjustment fund.

Mr. Watson: That is correct.

Mr. Haggerty: Is this all done by debentures, then, and returned? How do we return the investment from the pension funds? Do we have so many years to cover it—10 years, five years or what—when we borrow?

Mr. Watson: The Canada pension plan basically is 20-year borrowing. The teachers' superannuation fund is generally between 20 and 25 years, and it is the same for the public service superannuation fund. Those are the largest headings.

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Mr. Dietsch: At what rate of interest would we pay back?

Mr. Christie: The rates of interest for the Canada pension plan are based on long-term federal bonds with 20 or more years to maturity and trading in the marketplace. It is a market rate but it is a federal government market rate. The most recent quote for the Canada pension plan was 9.93 per cent. That is for funds drawn in December of this year.

Mr. Haggerty: That is what you pay for.

Mr. Christie: Well, in fact, in December it was drawn by Ontario Hydro and Hydro will pay 9.93 per cent for that month.

Mr. Haggerty: There is nothing that the province makes on it then, is there? In other words, is there an extra one per cent for the province when it borrows it, or what—for handling?

Interjection.

Mr. Haggerty: I am just trying to find out—when they say that the federal bonds are 9.3 per cent, that is what the interest rate is, and that is what the chargeback is to Hydro to pay for it—if there is any other added factor in there that says that there is one per cent—

Mr. Christie: A commission? No. There is no commission or pass-through charge.

Mr. Haggerty: There is no commission or pass-through, then? There is no outsider who is involved in it then, is there? You are not buying it from a bonding house or anything?

Mr. Christie: No. That is right. It is a direct and private deal between the province and the federal government—the Canada pension plan.

Mr. Chairman: I hope you do not mind these interjections. Perhaps they help clarify things.

Mr. Morin-Strom: Can we get percentages? Is that 9.93 per cent or 9.3 per cent?

Mr. Christie: It is 9.93 per cent.

Mr. Morin-Strom: What is it for the other two big ones, the teachers' superannuation fund and the public service superannuation fund, for the most recent month?

Mr. Christie: The teachers' superannuation fund for the most recent month is structured a little differently. It is based on Ontario long-term bonds trading in the public market. It is an Ontario bond rate versus a federal bond rate. The most recent interest rate on that, I believe, is 11.16 per cent for December.

Mr. Morin-Strom: And the public service superannuation fund?

Mr. Christie: The public service superannuation fund makes an annual deposit rather than a monthly deposit. So they receive an interest rate that

is the average experienced over the year. The average to date in 1988-89 is 11.18 per cent. If interest rates remain at 11.18 per cent, that is the rate the public service fund would get on its 1988-89 deposit.

Mr. Morin-Strom: What is the comparison with the most recent bond issue or debt issue by the province? What is the marketplace actually demanding from Ontario?

Mr. Christie: It is not the province; in fact, it is usually the Ontario Hydro bonds that are looked at in determining the rates for the teachers' fund and the public service fund because, as Robert indicated, the province has a very small amount of funded debt outstanding.

Ontario Hydro has not done a long-term issue for three years or something like that. The most recent market issue that Hydro undertook was a 10-year issue in October that yielded 10.2 per cent.

Mr. Haggerty: How are these teachers' debentures handled? Do they go through a bonding house to be sold or are they sold directly to the province's savings bank?

Mr. Christie: With the teachers' debentures there is no intermediary. It is a direct placement governed by the Teachers' Superannuation Act. The act determines the way in which the province will borrow from the teachers.

Mr. Haggerty: Would you say that 11.16 per cent is a fair return on 25-year bonds?

Mr. Christie: It is based on bonds trading in the marketplace, and that is the rate the market is paying according to a formula on those securities. The formula is set up such that there is a market test.

Mr. Cleary: Did I understand you correctly to say that when the Ontario Hydro bonds or debentures are sold, there is no commission?

Mr. Christie: No, I am sorry if I confused matters there. On Canada pension plan borrowings, regardless of who is the borrower, whether Hydro or the province borrows from the Canada pension plan, there is no commission. If Hydro does a public market bond issue, sold to the public, it is normally handled through an underwriting syndicate of investment dealers, who are basically the marketing agents, and they are paid a commission for undertaking a marketing agent function.

Mr. Chairman: Carry on.

Mr. Watson: I believe in the earlier discussions last week, Mr. Ferraro asked what the debt was over 10 years. That is the reason the numbers have been included in the package.

To move on to the next chart, which is the consolidated public sector funded debt, this is a little different look at the debt, not only in terms of what has been incurred at the provincial level but also to pick up what has been incurred at the local government and agency levels. Again, it comprises the three components, and I should add here that this talks about funded debt. It does not include the unfunded debt, because those numbers are very difficult to get when you move outside the provincial jurisdiction. Also, as Mr. Christie will speak about a little later on, interprovincial debt

comparisons are rather difficult to do. So, their sort of general common denominator is funded debt and that is why that particular measure is used in this chart.

Again, it comprises three components. The first and the largest, of course, almost 50 per cent of it, represents the debt issued for provincial purposes that we discussed. That is the funded debt portion of that which we discussed on the earlier chart. Then added to that is the Ontario Hydro debt, 43.3 per cent of the total public sector funded debt, at $25 million. Those two amounts together account for about 93 per cent of the consolidated public sector debt in Ontario.

The third component is the nonprovincial sector at $4 billion, or 6.9 per cent, and it represents the debt that is issued at the local government level and the obligations of universities, hospitals and colleges. Adding the total amount together, the consolidated public sector funded debt outstanding at March 31, 1988, was $57.8 billion. Those are the two aspects of the composition of debt that we wanted to bring to the committee's attention this morning.

Mr. McCague: The nonprovincial sector, local government, hospitals, colleges—you might have mentioned others—is that bridge financing or what? How does the government incur a debt in those areas?

Mr. Watson: I am sorry I did not make that clear. This is not debt that the province has incurred, but what we really tried to do was take the government debt, be it local government debt, Hydro debt or provincial debt, and add them together to give an indication of what is the total debt of the public sector in the province. Those obligations are really the obligations of the local governments. For example, a municipality would issue a debt in its own name and on its own credit.

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Mr. McCague: You are saying then that if you were to add up all the debentures outstanding by municipalities in the province, it would be included in this figure.

Mr. Watson: That is correct.

The other aspect that we wanted to speak to was another comment that came up in last week's discussion. It had to do with public debt interest and the ratio of public debt interest payments as a percentage of revenue. I think it was discussed in general terms, but there were no numbers available in that presentation.

That schedule is included in the handout. It is headed "Interest on Outstanding Provincial Own-Purpose Debt." It shows the interest payments over 10 years rising from about $1.3 billion to about $4 billion, and the interest payments as a per cent of revenue; that is, of every revenue dollar, how many cents are represented by interest payments. Those ratios are shown there. Ten years ago, it was about 10 per cent. It rose to a high of 12.4 per cent some four years ago and now is reducing gradually to the estimate for the end of this year, about 11.1 per cent.

Mr. Haggerty: Would that include Hydro's debt?

Mr. Watson: No, it does not. That is the province's own-purpose debt.

Mr. McColl: Maybe we will move on to Hydro then.

Mr. Chairman: Yes, thank you.

Mr. Christie: With respect to Ontario Hydro, we have provided, in response to some questions from last week, information on the level of Hydro's debt and financial indicators that it employs to describe its the financial health and structure, as well as the gross and net borrowing levels of Hydro. We have provided those for the period of the last 10 years.

With respect to Hydro's financing generally, Hydro follows an annual and quarterly planning process and planning cycle, linked in with the Ontario Energy Board approval process of its rate, to determine its annual borrowing plans and annual borrowing program. The annual borrowing plan for Hydro is determined just around this time of year, in fact. I think it will be January when it is taken to the Hydro board of directors. It is then updated on a quarterly basis to reflect developments in Hydro's operations, changes in its capital program, changes in its economic circumstances, etc.

The Ministry of Treasury and Economics works with Hydro through this planning process to discuss with it its plans, reflect upon the policies that Hydro may be following and in a co-operative manner, hopefully, work with Hydro to structure its borrowing plans and activities. When the time comes to do specific bond issues, Treasury staff are also present at the pricing of the particular issues and are involved in the discussions with Hydro staff and investment dealers and advisers on when is an appropriate time to conduct the borrowing.

In 1987, Hydro's gross borrowing was, as we have shown here, about $2.5 billion. It was about $1.3 billion or $1.4 billion net of retirements. That is new debt after repaying old debt.

In 1988 and 1988-89, now essentially complete, Hydro borrowed $3.4 billion, the increase being largely due to a higher level of maturing debt. Their actual net borrowing for new debt was about $1.5 billion this year. The number is not officially set for next year, but the preliminary indications suggest a somewhat lower level than this year's $3.4 billion--somewhere between $3 billion and $3.4 billion for Hydro borrowing requirements next year, with about the same level of net new borrowing at the $1.5 billion level.

The trend in Hydro's borrowing needs, as you will note from the material we have supplied, is for a declining real level of borrowing in terms of the new debt they are taking on from a peak of the $2 billion level in terms of net borrowing in 1982 and 1983. Hydro's net new borrowing is now down to $1.5 billion and is expected to fall further as Darlington nears completion.

Mr. Haggerty: There was a considerable drop in 1985. I can only assume that the big rise in borrowing was due to the Darlington plant. Am I correct on that? Then, again, you dropped down in 1985 to $770 million, I guess that would be. Then there is a climb again. Why would that be?

Mr. Christie: I cannot give you a concise answer to that. I suspect that it has to do with the timing of the in-service dates of the Bruce and Pickering plants, as they come into service. The borrowing for them tails off and there is the timing of the payments on Darlington. If you would like a fuller answer to that, we can provide supplementary information.

Mr. Haggerty: When you talk about Bruce, though, that has been well

over 20 years now. The debt of that plant should almost be retired, should it not?

Mr. Christie: Bruce B—the additional four units at Bruce.

Mr. Haggerty: In relation to the debt that is here—

Mr. Chairman: Is this a new question?

Mr. Haggerty: Yes, a new question.

Mr. Chairman: Mr. Ferraro had his hand up.

Mr. Haggerty: I was just following up. Go ahead, Rick.

Mr. Ferraro: Let him follow up.

Mr. Haggerty: On the debt ratio, at one time when they, particularly Hydro, were dealing with the renewable resources, the ownership of Hydro was about 80 per cent and it had about only a 15 or 20 per cent debt. What is that ratio now? Is it about 10 per cent that Hydro really owns, with the rest all in debt?

Mr. Christie: Traditionally, Hydro's target has been for something between 80 and 82 per cent of its assets represented by debt and the remaining 18 to 20 per cent represented by equity.

Mr. Haggerty: So it was reversed. They still have not come out of that hole then, you might say.

Mr. Christie: As long as I have been familiar with the numbers and as far back as I have seen them, which is into the 1960s, Hydro's debt has represented 75 to 80 per cent of its equity. As they had a relatively large capital program in the 1970 and early 1980s, that proportion of debt rose to about 85 per cent, as you can see here in 1978. It has improved fairly steadily from then to now. It is beginning to approach their target range of about 82 per cent. I think that it has been quite stable in that 75 to 85 per cent debt range.

Mr. Haggerty: I thought at one time that Hydro was supposed to reach that level, to equalize it there to some degree by 1990.

Mr. Christie: I think they are very close to it now. The financial forecast—if I can find it here—that they tabled with the Ontario Energy Board this year forecast that in 1989 and 1990, this debt ratio shown as 0.836 in 1987 will fall within that target range of 80 to 82 per cent.

Mr. Haggerty: What are the numbers?

Mr. Christie: The numbers we are looking at here?

Mr. Haggerty: I mean the numbers that fall within that range.

Mr. Christie: I think the 1990 number was 81.9 per cent.

Mr. Ferraro: I have two questions, just for clarification purposes. The debt ratio—what are we talking about there—debt equity, debt assets?

Mr. Christie: It is usually referred to as the debt equity ratio. It is the portion of their long-term assets that have been financed by debt.

Mr. Ferraro: So it is debt equity.

Mr. Christie: If it is quoted as 80:20, it means 80 per cent debt and 20 per cent equity.

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Mr. Ferraro: Okay. Just for clarification, I listened very attentively when you were talking about the process of debt approval. I am mindful of the fact that municipalities have to get their borrowings approved by the municipal board, and I guess to some degree there is some direction from Treasury. Maybe you can clarify that.

Also, as a second part of the question, you indicated that when Hydro is planning to borrow, the Ontario Energy Board is involved as well as Treasury officials, and there is a co-operative approach. I wonder if you could expand a little on that, because obviously, being a crown corporation, the government is inevitably involved. I realize the arm's-length nature of it. If you could comment on the process for both the municipal board and Hydro to a greater degree, I would appreciate it.

Mr. Christie: Okay. The board involved in the Hydro borrowings is the Ontario Hydro board of directors. If I used "board" in too short a form and misled anyone, I am sorry. The process in detail involves Hydro's structuring of an annual plan. They do this at the staff level, as I indicated, at about this time of the year. I think we are scheduled to meet with them within the next couple of weeks to look at a draft borrowing plan for 1989. They take that plan to their board of directors.

Mr. Ferraro: Excuse me for interrupting. Maybe I am missing something here, but why do they indicate their borrowings for the next year after they have set the rate? Why not at the same time as setting the rate?

Mr. Christie: This is Hydro operating procedure.

Mr. Ferraro: Does that make sense, though, from an accounting standpoint? You say you want X per cent increase for the consumers, then a couple of months later you come in and say, "This is what I want to borrow." How the hell do they know what the carrying costs are?

Mr. Christie: There is a preliminary number set as part of the rate determination process. When they set the rate, they know they will have to borrow, for example, $3 billion. Over the next couple of months, they will get somewhat further information. It will be finalizing capital plans and from Hydro's perspective, institutionally it will be setting its corporate budget. It is that corporate budget process that finally nails down the precise borrowing number.

Mr. Ferraro: I do not want to beat this to death, but since the consumers of Ontario are inevitably going to pay for this debt on a bottom-line basis—I wish every business could operate that way—surely, from an accounting standpoint, they deserve a more precise indication at the time the rate is set. Is that not logical? You say you have a rough idea now, then a couple of months later they come in and, on an institutional basis, say, "This is exactly what we need." Is that it?

Mr. Christie: That is what happens now. The differences are really quite small in terms of the differences between the borrowing implicit in the rate decision and discussed at the Ontario Energy Board, and presented as part of the documents that Hydro presents to the OEB. They will provide a number with respect to the borrowing there and that will be implied in the rate decision. The precise number to the exact millions of dollars they seek board authority for is determined subsequently as part of the budget, but it is a refinement of the number that is already in place.

Mr. Ferraro: It is a little unusual. I am sorry, I got you off track as a result. Go ahead.

Mr. Christie: The ministry's involvement in the annual plan, as I noted, is to discuss it with Hydro staff beforehand. We endeavour as a matter of practice to resolve any disagreements on policy or practice at that point. When that has been accomplished, the plan goes forward to the Hydro board of directors. Also, on the government side, it is presented to the Treasurer and shown to the cabinet for discussion as an indication of what Hydro intends to do next year.

Mr. Ferraro: The Ontario Energy Board has nothing to do with it?

Mr. Christie: The Ontario Energy Board is not involved.

Mr. Ferraro: That is where I got confused.

Mr. Christie: They have done their job at the rate review. The plan then unfolds through the year. Individual bond issues are done. Cabinet is asked for the approval of orders in council to ratify the bond issues, and the quarterly review process that I described is undertaken.

With respect to the foreign content of Hydro's debt, which was asked about last time, about 38 per cent of Hydro's debt is denominated in foreign currency—almost entirely in US dollars. Hydro has not done a foreign financing since March 1984. So for approximately five years now, all of Hydro's borrowing has been done in Canada. The foreign markets can, from time to time, offer a useful outlet for Hydro, a cost-effective way of borrowing, but Hydro has a policy, encouraged by Treasury staff, of not assuming additional foreign exchange risk, so that if Hydro is to look at a foreign currency market for borrowing it will do so on the basis that it will cover the risk of foreign exchange through some capital market technique such as a foreign currency swap.

Only under those conditions would Hydro consider a foreign market borrowing. The impact of Hydro's debt on the exchange rate is about $140 million on the level of debt for a one-cent change in the exchange rate. So, for example, as the Canadian dollar has risen in recent months, that has had a beneficial effect on the level of Hydro's debt and on the level of costs that it pays for the foreign currency side of its debt.

Mr. Haggerty: It is the American dollar that has dropped.

Mr. Christie: That is right. The American dollar has dropped against other currencies and the Canadian dollar has improved against the American dollar.

Mr. Morin-Strom: What was the factor again? A one-cent change in the exchange?

<u>Mr. Christie</u>: A one-cent increase in the Canadian dollar will reduce the Canadian dollar value of Hydro's debt by about $140 million.

<u>Mr. Morin-Strom</u>: One hundred and forty million dollars for one cent? So a five-cent change has meant a $700 million reduction in the amount of debt you owe in Canadian dollars.

<u>Mr. Christie</u>: That is right. That is a balance sheet valuation. The way in which Hydro accounts this stuff for rates determination purposes is to amortize foreign exchange gains or losses over the life of the bonds. So that if Hydro makes a gain of $100 million, it spreads that over 15 or 20 years until the bond retires. So that while the rise in the exchange rate has been helpful to Hydro, it is a gain that will, if the dollar stays at 83 cents for example, that gain will be realized over the remaining life of the debt, which as I indicated could be 10 to 15 years.

<u>Mr. Morin-Strom</u>: How much total foreign debt do you have?

<u>Mr. Christie</u>: The total foreign debt is about 38 per cent of Ontario Hydro's debt outstanding.

<u>Mr. Watson</u>: It is about $7 million.

<u>Mr. Chairman</u>: So when you say $140 million, you mean $140 million a year. Is that correct?

<u>Mr. Christie</u>: No, that is a one-time change, revaluing the level of the debt. I believe that Hydro has indicated that a one-cent change in the dollar means about $30 million to its bottom-line net income position annually.

<u>Mr. Chairman</u>: So the annual change is about $30 million.

<u>Mr. Christie</u>: Yes, that is on its profit and loss.

<u>Mr. Chairman</u>: So if Hydro borrows the money at 82 cents and then it goes up to 83 cents and it borrowed it for 20 years, and it sits at 83 cents for the 19 years, how much money have we saved—19 times $30 million?

<u>Mr. Christie</u>: I would have to go back to the sums to answer that.

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<u>Mr. Ferraro</u>: Are they on a fluctuating interest rate as opposed to a fixed rate?

<u>Mr. Christie</u>: Most of Hydro's borrowings are on a fixed rate for various terms. The most popular terms Hydro has used in recent years have been five years or 10 years.

<u>Mr. Ferraro</u>: What percentage would be fixed?

<u>Mr. Christie</u>: What percentage of Hydro's debt would be fixed?

<u>Mr. Ferraro</u>: Yes.

<u>Mr. Christie</u>: Approximately 92 per cent. There is a policy for debt management purposes of having about 10 per cent of its debt on a floating rate basis. Some of that is through a short-term note program and some of that is

through an interest-rate swap program. As a matter of policy, they have at least 90 per cent fixture.

Mr. Ferraro: May I ask a general question on this line?

Mr. Chairman: I saw Mr. Morin-Strom's hand. He must have a follow-up.

Mr. Morin-Strom: I would like to follow up on this point: You stated earlier that Hydro's policy is to eliminate, if possible, the influence of foreign exchange changes.

Mr. Christie: In terms of new borrowing, not to take new exposure to foreign currency risk.

Mr. Morin-Strom: I see. But they have no principal of trying to mitigate or cushion the effect of exchange changes on the old debt?

Mr. Christie: On the existing debt, they also have the foreign exchange management program that goes on year after year. They are attempting, when it appears profitable, to reduce that foreign currency exposure. In the last year, they have been quite active in that area as the Canadian dollar has appreciated and they have had an opportunity to reduce the costs of some of their foreign currency that they have been active in that area.

Mr. Morin-Strom: You said that Ontario Hydro on that old debt has made some gains which are going to be potentially on the books spread out over 20 years from the exchange rate having gone up in the last year or so. But you also said that we have not purchased any new debt in the last four or five years from outside the country, which means in fact the debt that was taken was taken at a time before Canada's exchange rate went down. It must have been taken at a time when the exchange rate was much higher than it is even today.

I presume Ontario Hydro has made quite significant losses from the time it made its borrowing until today. Do you have figures on how many Canadian dollars were borrowed on that $7 billion of foreign debt? What do we owe today in Canadian dollars on that?

Mr. Christie: In terms of what the Canadian dollar equivalent is?

Mr. Morin-Strom: Yes, what we would owe on the Canadian dollar equivalent today compared to the Canadian dollars we actually got from the debt at the original time of all of those debt issues?

Mr. Christie: No, we do not have that information here. It is something that we could put together. One of the difficulties in looking at that kind of comparison is, for example, when the United States initially undertook a borrowing, it was generally the case that the interest rate paid on the US borrowing was perhaps 1 per cent lower than would have been paid in Canada. That was regarded as providing some margin against exchange change, so that a comparison of the original Canadian dollar equivalent with the current Canadian dollar equivalent is useful but does not address the interest savings on the coupon difference that would occur.

Mr. Morin-Strom: So you would have to balance those two factors.

Mr. Christie: Exactly. You would have to balance those two factors. Hydro does not look at it and we do not look at it on a bond-by-bond basis. We

tend to look at it for the debt as a whole. However, if the committee would like that explicitly addressed, we can make a comparison you would ask for.

Mr. Chairman: Would you be prepared to guess at what it might show? I mean that would be easier.

Mr. Christie: On numbers of this size, I would prefer not to guess.

Mr. Morin-Strom: I think it would be at least worth while to see the timing of those foreign debt issues and what the comparison is in the Canadian dollar value you got then compared to the Canadian dollar value we owe today.

Mr. Christie: We can prepare something for the committee.

Mr. McColl: I believe it is laid out in Hydro's annual report. It is very simple.

Mr. Morin-Strom: With those exchange rate factors at the time.

Mr. Chairman: Perhaps we can obtain that ourselves then with your assistance. Mr Ferraro and then Mr. Haggerty.

Mr. Ferraro: I have a general question I would like to ask our experts here, if they can answer it. It is intriguing to the average Ontarian, I think, when he hears about the ramifications of fluctuation in the Canadian dollar vis-à-vis the American dollar. You indicated that if there is a one-cent distinction, the net gain for Hydro over an annual period is roughly $30 million, which is wonderful news for the taxpayers of Ontario.

I would like to know if there is a general rule of thumb or if you can expound on the net effect to Ontario as a whole, because obviously our exports are more costly and we would lose some revenues and so forth when it goes up; well, we would have savings. Is there a net effect for one cent to the province's economy as a whole? It is a difficult question, I know, but I am just asking for a general indication.

Mr. Christie: It would be a fascinating number but it is not a number that I have. It is not a number that I am aware of anyone's having calculated.

Mr. Ferraro: I am just trying to figure out whether we would be net winners or losers.

Mr. Christie: It is very difficult. There have been things in the press in the last week or so in terms of the impact of a one per cent change in the dollar on the forest products industry. Hydro is a beneficiary. Some ministries are losers. Consumers may be gainers if the import prices--

Mr. Ferraro: So we do not know.

Mr. Christie: --are allowed to fall; but if they are not allowed to fall you have another answer. It is a very complex calculation.

Mr. Ferraro: Okay. I am sure it is.

Mr. McColl: I have never seen any numbers.

Mr. Ferraro: Would you guess?

Mr. Haggerty: That was my question, but I will just follow up on what my colleague Rick has been talking about on the matter of the exchange rate. It may leave the impression here that there is a windfall to Hydro, but Mr. Ferraro has touched on the matter of the export of interruptible power to the United States—and I do not know what the numbers on that would be today—and you may be looking at $30 million or $40 million. I do not know whether it is sold at the price of the Canadian dollar or if it is at the price of the American dollar. There may be an equalizing factor so that there is no win, in a sense.

Mr. Christie: There is likely some impact there. The number I cited is the number that Hydro has cited as the total effect of a one-cent change.

Mr. Haggerty: That would take in the export of power too?

Mr. Christie: I believe so. On the basis that Hydro has cited, it is the impact of a one-cent change on its bottom line. So I would presume on that basis that it includes the factor you have cited.

Mr. Haggerty: Well, maybe you should check that out and find out.

Mr. McCague: Would that not depend on whether Hydro is selling to the United States in American or Canadian dollars? And do you happen to know on what basis they are selling?

Mr. Christie: As it has been explained to me, the price is set somewhere between the cost to the American utility generating the extra amount of power versus the cost to Hydro generating it. I would only assume—you can verify it if you like—that they are standardized on the same currency when the price is determined.

Mr. Haggerty: Is it $6 million, somewhere around that figure?

Interjection: I am not aware of it.

Mr. Chairman: Last week I think we heard that all of our own-purpose debt is internally borrowed—Canadian borrowed. Is that correct? All of it?

Mr. McColl: That is correct.

Mr. Chairman: Is any Ontario Hydro debt borrowed in Canada?

Mr. McColl: Roughly 63 per cent.

Mr. Christie: I think we indicated 38 per cent was foreign and the remaining 62 per cent would be Canadian.

Mr. Chairman: It would be 62 per cent in Canada. Would any of you be prepared to outline for us the history of Hydro's getting on a different wavelength? What was the rationale behind it? How did we get into this situation?

Mr. McColl: I will take a shot at that, if I may. My understanding was that back in the 1950s, certainly in the 1960s and early 1970s, one of the biggest concerns in Canada—Canada was an importer of capital—was that there would not be enough capital to finance the expansion of the utilities and the general expansion of this country; and it was at that point, I think, first in the 1950s, that Ontario Hydro and the province started to borrow in US dollars.

Canada, through the 1950s, had a very favourable reception in the United States, but in the period of the 1960s there was a tax imposed by the Americans, called the interest equalization tax, from which Canadians were not exempted. That suddenly woke everybody up to the notion that if we are going to be reliant on foreign markets, New York in particular, we should start to develop alternative sources of funds. That was the time we started to look to Europe.

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The Canadian dollar, until May 1970, was pegged at 92.5 cents. There was stability in the international monetary system, and it was thought we should have these alternative sources. That is when Canadian governments, the provinces particularly, started getting into Europe, with US dollars in Europe, and stuck their toe in the water for some other currencies: Swiss francs, German marks, etc.

The Canadian dollar was floated in May 1970, as I recall, and we generally woke up to the realization that there were foreign exchange risks associated with that. I would say that within a couple of years in Ontario the governing policy, in its broadest terms, was that if you could not nail down the costs, then you had better stick to Canadian dollars.

But we still were stuck for a time with the notion that there was a shortage of capital and that if governments and utilities in this country continued to borrow at the pace they were, they would squeeze the private sector out. That turned around in Ontario about 1976 when a prolonged period of restraint began. If you will recall, Ontario Hydro was required to slash about $6 billion out of its construction program. The government of the day also entered into a period of—

Mr. Haggerty: In 1975.

Mr. McColl: My recollection is 1975-76.

This country has been an importer of capital over many years. It has not been until the last decade, I would say, that we have become more and more reliant on just our internal savings to finance activity.

As to how we got started in the US, I do not know if anybody here was around at the time, but I think the belief was that there was a great deal of trade between the two countries and the currencies were linked and would remain relatively stable one to the other. That did prove to be the case over a long period. It was believed the foreign exchange risk was not great.

Mr. Chairman: Thank you. That clears up a lot in my mind.

Mr. McCague: You say that all the debt owed by the province on its own account is held in Canada?

Mr. McColl: Yes. Well, it has been sold in Canadian dollars through Canadian sources. It could be that a foreigner owns it, but it is in Canadian dollars.

Mr. McCague: There was a point, though, when some was held—

Mr. McColl: Some debt was issued by the province in foreign currencies?

Mr. McCague: Was there or not?

Mr. McColl: Yes. In the late 1960s, again as a result of this tax change in the United States, the province and Hydro started to expand and establish their reputation in Europe. The province borrowed, I think, four issues in German marks, which have since been paid off.

Mr. McCague: Mr. Chairman, in answer to your question about why Ontario Hydro would go outside the country to borrow, I seem to recall the great fear at the time, as Mr. McColl has said, that if Ontario Hydro and the province were to borrow solely in Canada, there would be nothing left for the private sector. That was the big fear, and I think that really was the reason it was done at that time. Whether that would have been the case, nobody knows, but it did appease the borrowing public at the time.

Mr. Chairman: That fear does not exist now, to my understanding.

Mr. McColl: Not to the same degree.

Mr. Chairman: Is this ratio being maintained or are they reducing foreign borrowing?

Mr. McColl: I cannot give it to you exactly, but my recollection is that about four or five years ago roughly 50 per cent of their debt was in US dollars and they have been deliberately attempting to bring it down. Currently, it is at 37 per cent.

Mr. Chairman: Thank you. Carry on.

Mr. Haggerty: I have one question with regard to Hydro's debt and borrowing and the interest on outstanding provincial own-purpose debt. As I interpret it here, I understand that when Hydro issues bonds or debentures, a certain amount of that money is used to retire the debt also. Does that apply to interest on outstanding provincial own-purpose debt? Is it or has it been the government policy that when they are borrowing to carry out capital works projects in the province—and I am looking at the interest payments as a percentage of the revenue; it averages about 11 per cent, in that area. Is there any of that earmarked when they borrow it to pay back issuing the bonds or debentures, to pay back a certain amount of the debt, or are we just paying interest on interest over the years?

Mr. Christie: Generally, funds are not earmarked for specific purposes, and in particular, funds are not earmarked for debt purposes. If a particular bond has been issued, when it becomes due, it is repaid from whatever source is available at the time.

Mr. Haggerty: But it does not retire the provincial debt. I am thinking back a number of years ago when they were borrowing from the Canada pension plan, and you mentioned it here; they were borrowing at about three per cent. In committees that I have sat on, the question has been raised "Why are you not paying off the old debt?" They said: "We would be fools if we paid it off at three per cent. We would be better off if we just let it ride and continued paying the three per cent interest." Does that practice continue?

Mr. Christie: For example, with the province's debt, there is no facility to pay it back early. Something over 90 per cent is owed to nonpublic sources. With the Canada pension plan, for example, it is a 20-year bond and there is no facility in, essentially, the contract with the Canada pension

plan to pay it back early. I think if we went to them and we would pay it early, they would have some difficulty accommodating us, because there is a contract in place; similarly with the teachers' plan.

Mr. Haggerty: In other words, the practice that has been carried on for a number of years encourages the government to spend more, and regardless of what the debt is, you keep spending. Compare it to New York state, for example. Governments over there, any of them, cannot have a deficit in any one year. Almost everything that is long-term capital outlay and so on is done by debenture, and out of that debenture, so much has to retire the debt. Does that principle apply in Ontario?

Mr. McColl: I do not think we should try to get into a description at this point of the differences between the Canadian system and the American system.

Mr. Haggerty: Use municipalities then. My experience on local council was that when you debenture for a long-term capital outlay, a capital project, you sold the debentures.

Mr. McColl: And you paid them back when they came due.

Mr. Haggerty: You paid them back when they came due and you retired your debt. Does the same principle apply here with the provincial debt?

Mr. McColl: Yes, it really does.

Mr. Haggerty: In what way?

Mr. McColl: I think the problem we have here is that it is relatively simple at the local council level, thinking about the fire truck and the debt associated with it. With a bigger government and all the things that are going on, it sort of gets lost in the wash of what that money you borrowed 10 or 20 years ago was for. I think your question really goes to the heart of—

Mr. Haggerty: Just stop right there.

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Mr. McColl: Just let me finish for a second. I think your question goes to the heart of how you establish that the money that has been spent in capital and whatnot over the years has produced sufficient revenue to allow you to service the debt you are carrying. That is a very tricky one to answer. The only way we can is to look at that growing level of debt over time to see if, for whatever reason it was spent, education of people or the capital for the building, there is a reduction in the burden of that gross amount of debt compared to the gross domestic product or the incomes of the people in the province. We do those types of measurements, and tend to take this total debt picture and say that, as a burden expressed in a percentage of gross domestic product of the province, it is a declining burden. Therefore, we assume that the capital that was spent back then, for whatever kind of infrastructure it was, is producing a return because the economy of the province is growing.

Mr. Haggerty: Yes, but the municipalities' revenue is generated through transfer payments and direct taxation on property. Here, the upper levels of government have access to the provincial sales tax, income tax, corporation taxes—you name it, you can go through many of them—services for certain things, charge fees for Liquor Control Board of Ontario, etc.

The point is that there is no incentive here to retire that debt. If you look at it, it keeps going up and up, and really we are not retiring that provincial debt. In a 10-year period, it has gone up well over 130 per cent, from $16 billion to $36 billion.

Mr. McColl: It has gone up in terms of absolute dollars. It has declined in terms of its percentage take of the gross provincial product, or in terms of interest rates.

Mr. Haggerty: If you get into the interest rates, you can see that multiplying year by year.

Mr. McColl: Interest as a percentage of revenue. I am sorry.

Mr. Dietsch: On a supplementary: Are those figures on these sheets to show us what Mr. Haggerty is pointing at? Are those figures incorporated within these sheets?

Mr. McColl: I do not think what Mr. Haggerty is trying to establish is in our sheets.

Mr. Dietsch: Is it a possibility for those figures to be rolled out, that you can demonstrate that?

Mr. McColl: I could produce the figures that I was talking about in terms of a burden of debt as a percentage of the national product.

Mr. Dietsch: That is what I was asking.

Mr. McColl: Oh yes, we can produce that. It will be in the book that is published or delivered next week.

Mr. Chairman: Carry on.

Mr. McColl: Maybe we should move, Mr. Chairman, to the interprovincial debt comparison chart.

Mr. Christie: On the slide on interprovincial debt comparisons: Robert indicated earlier, for purposes of comparison, a concept of funded debt, which simply means bonds, notes, debentures, as opposed to some of the deposits that we described as consisting of unfunded debt. For this definition, we are showing here a comparison of provincial debt across the country.

You will note that Ontario, generally on a per capita basis and as a percentage of gross domestic product—the measure Don just referred to—compares reasonably favourably to other Canadian provinces. Of all the provinces, only Alberta has a lower level of debt as a percentage of gross domestic product than Ontario, while both Alberta and Prince Edward Island have lower debt measured on a per capita basis.

We should indicate that the comparison we are showing you is of direct and guaranteed provincial debt. That is, it includes Ontario Hydro and other guarantees of Ontario. The debt measure for other provinces includes the similar agencies for those provinces, i.e., Hydro-Québec for Quebec, etc.

Ontario's position of being second or third in these measures is one that has been fairly stable over the past few years and remains in this position.

Mr. McCague: The first chart you showed us has a 20.5 per cent unfunded debt. If that were used in this chart, would it have a significant effect?

Mr. Christie: It is very difficult to determine that, which is why we present them on this basis. On the total debt basis, each province differs in terms of the way it presents its own accounts. One of the advantages or the reasons for using the kind of comparison shown here is that when you focus on bonds and debentures, etc., there is an element of uniformity to that which facilitates these kinds of comparisons. To extend beyond that is difficult in the sense that provinces account differently. Some provinces make more use of bank loans than Ontario does, for example, while only Ontario and Quebec among the provinces maintain substantial deposit accounts for pension funds. So there is a fair lack of comparability as one moves beyond that.

It is very difficult to answer your question. I do not know how it would change, although my suspicion is that given the degree of difference between Ontario and most of the other provinces, Ontario's position would remain stable, about where it is.

Mr. McCague: So this chart does represent about 80 per cent of Ontario's debt?

Mr. Christie: That is right.

Mr. McCague: Maybe you could just tell me. The source of this is the Bank of Canada review and your own ministry. I do not quite understand why you would not show one or the other. I do not understand the interrelationship of showing two sources for this.

Mr. Christie: The interrelationship there is simply that the Bank of Canada collects this information on a comparable basis across all the provinces but omits a couple of items, primarily short-term paper and Treasury bills. We have supplemented the Bank of Canada information with our own information on provincial Treasury bill and promissory note programs to arrive at the measure shown here.

Mr. McColl: I might just add that if this has been a confusing discussion here, that is one of the reasons why we as Canadians are often viewed as confusing outside the country. In our business, we have run into international investors who say: "Let me get this straight. You in Ontario have a private sector telephone company but a public sector utility, and when we're talking about Alberta, you have a government telephone system but a private utility. Why do you organize your country that way?" That gives rise to why these interprovincial comparisons are so difficult to get to on a piece of paper.

Mr. Mackenzie: It is really the same question Mr. McCague was asking. I take it your answer is that with the unfunded portion added in terms of the final chart, we would still probably be in second place in debt load?

Mr. Christie: I believe so. If we felt we could confidently measure or make this kind of comparison on a broader basis in terms of the unfunded structure, we would. I would not want to be more definite than I was in terms of--

Mr. Mackenzie: You would not want to bet a month's salary on it?

Mr. Christie: Not much of it, at any rate.

I would not want to be more definite than I was in terms of where that comparison would be. But as I indicated, given the degree of difference evident here, my strong feeling is that it might change the order by one or two, that is, instead of being second on some measures, we might be first or third. If we are second, we might be third or fourth, but it is not going to be a significant change.

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Mr. McColl: Maybe we could move to the last chart, which is just creditworthiness. I think we are just including this information from the four rating agencies for all provinces.

Mr. Chairman: Do they all use the same criteria? Is a triple A possible with Dominion Bond Rating Service? I do not see any triple A's there.

Mr. McColl: The Dominion Bond Rating Service began rating governments in this country in May 1987, so we have not had a long history with them, but we tend to believe and they tell us that their ratings are, on balance, lower than the other three we have shown here. But we do not have a long history or confidence that we understand completely the process which they use to arrive at these ratings. We have had a long history with Standard and Poor's in New York and Moody's. I think our Moody's rating goes back to 1918.

We think we have a pretty good feeling for the factors that Standard and Poor's and Moody's look at, less so with Dominion Bond Rating Service. Quite frankly, we are not at all confident we understand the Dominion Bond Rating Service rating.

Mr. Chairman: They still might give us the best rating in the country.

Mr. McCague: Just a point of information——why, when we hear so much about the financial viability of Alberta, would they have a lower rating than Ontario? For 43 years, it was triple A.

Mr. McColl: My understanding is that after the recession of 1982-83, the Ontario economy rebounded quite quickly, but Alberta was in pretty bad shape for a number of years. I think the recognition on the part of analysts was that the resource-based economy, especially in the oil and gas business, maybe made that more vulnerable than Ontario in terms of the diversity of the economy here.

Mr. McCague: Does that say that to a considerable extent that the rating is resource-based?

Mr. McColl: Not at all. But the strength and diversity of an economy is a big factor in the rating process. If it is dominated by one particular area, in Alberta's case the resource area, that could be a negative factor.

Mr. Chairman: I note in comparing this chart with the chart that was released a year ago, the only change in so far as Ontario is concerned is that a year ago Standard and Poor's rated us double A-plus and now we are triple A.

Mr. McColl: If it is helpful, because it has come up frequently in the past, the definition that Standard and Poor's uses for its triple A rating

is of undoubted quality. For its double A rating, the investment quality of the securities is described as differing only in a very small degree with triple A. So when you have a double A-plus, I do not know how small the difference is, but it is very minute.

Mr. Chairman: Whatever it is, we crossed the line.

Mr. McColl: We crossed that line.

Mr. Haggerty: That may well work for borrowing offshore, though. Correct? That is the only favourable thing you get out of a triple A rating, that if you are borrowing in the United States you get one eighth of one per cent off or something of that nature. Am I correct?

Mr. McColl: I do not think it makes much difference at the double A, double A-plus, triple A level.

Mr. Haggerty: Instead of paying the full nine per cent, you may borrow it for about eight and five eighths or something like that.

Mr. McColl: I just said I do not think it makes much difference. I think the distinctions start to fall out when you get down to the A and the triple Bs.

Mr. Haggerty: I just want to follow with a question on the Economic Outlook and Fiscal Review, Ontario 1987. On page 72, under "Ontario's Financing," it says, "Ontario has declined most of the CPP funds available to it." What proportion of the Canada pension plan fund is the province entitled to and what have we borrowed, say, this year?

Mr. McColl: We are entitled to a proportionate amount based on the contributions made by Ontario residents. I believe that number is around 54 per cent. Correct me if I am wrong.

Mr. Christie: It is approximately 50 per cent.

Mr. Haggerty: What are we looking at in dollars, roughly?

Mr. Christie: A billion dollars.

Mr. Haggerty: How much have we borrowed this year?

Mr. Christie: This year to date the province has, for its own purposes, borrowed nothing from the Canada pension plan, but Ontario Hydro has borrowed $589 million.

Mr. Haggerty: Are the municipalities allowed to borrow money from the Canada pension plan or would they have to do it through a provincial agency?

Mr. Christie: There would have to be something structured at the provincial level to facilitate municipal access. The Canada Pension Plan Act requires that the province or an agent or a crown agent be the borrower, so there would have to be a structure put in place.

Mr. Haggerty: Have any municipalities ever borrowed through the Canada pension plan to the province?

Mr. Christie: There were structures put in place in the late 1960s to facilitate local access to Canada pension plan money, but it was done through capital aid corporations. The Ontario Universities Capital Aid Corp. and the Ontario Education Capital Aid Corp. were in part used to allow municipal borrowing indirectly from the Canada pension plan.

Mr. Haggerty: You mentioned at the start that the province had borrowed through Canada Mortgage and Housing Corp.

Mr. McColl: From.

Mr. Haggerty: Why would you borrow from them if you had the Canada pension?

Mr. McColl: I think there were some programs—I could get you more details—where they were offering funds to see certain things happen in the housing business back in the 1960s.

Mr. Watson: I believe that was through the old Ontario Water Resources Commission, years back.

Mr. Chairman: Does the province guarantee all municipal borrowings? No? The province does not guarantee municipal debt.

Mr. Dietsch: Ultimately, they do. What happens if the municipality goes belly up? Certainly they do, ultimately. But they also have control over it through the debt ratio through the Ontario Municipal Board.

Mr. McColl: My understanding is that the province has the ability to go in and take over and administer the municipality. In that sense, I suppose, you have ultimate responsibility, but formally we do not guarantee.

Mr. Dietsch: No. That is right.

Mr. McCague: The issue came up earlier of Ontario Hydro's borrowing and whether commissions were paid. Does Ontario Hydro put out a bid proposal when they go to the market for funds?

Mr. McColl: No. The underwriting syndicate for Ontario Hydro, and it is similar for the province although not used very frequently, includes virtually everybody in the bond business in this country and it has been a diminishing number of firms over the years. It is not really a function of saying, was someone out there excluded? It is more a function of saying, how many people can we get in this thing who are actually in the business? It is a system that does not lend itself particularly to tendering in that sense.

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However, in the last year or so Ontario Hydro has also used an auction system for some three-year debt. In that shorter-period area of the market, they call for what in effect is a public tender for X millions of dollars' worth of three-year debt. We have used that on three occasions. It is particularly appropriate, it seems, for a large block of institutional-type money.

Where you are talking of five-, 10- and 20-year debt, which you want to distribute across the country to small investors, etc., the underwriting system seems the appropriate system to use.

Mr. McCague: Maybe you can take a moment to tell me this: When a Hydro issue goes on the market, there is no agent of record then, or is there?

Mr. McColl: Yes, there is. The system in Canada is for borrowers to appoint a fiscal agent or agents. In the case of Ontario Hydro, there are four agents appointed at the moment. They form what is described as the management of an underwriting syndicate. But it is generally known by the members of that syndicate—and there are agreements among them—that when an issue is actually brought to market at 10 o'clock today, each individual member will know pretty precisely what the percentage share of that issue will be, so that he can get on with the marketing with some assurance that he knows he is getting 1.25 per cent or whatever.

Mr. McCague: So there is nothing about the system that a bond sales firm would take issue with? They are all happy with the way it is done?

Mr. McColl: I do not think they are ever happy. They all claim to have talent and expertise that would allow them to do more. Unfortunately, the pie only has 100 per cent in it. That is the problem.

Mr. Ferraro: You estimate the nonprovincial sector debt for March 31, 1988, as roughly $4 billion—essentially municipalities. I wonder what the process would be pragmatically or the down side if, for example, one says, "In order for a municipality"—let's take my city, Guelph—"to debenture $1 million for whatever, it has to get Ontario Municipal Board approval," which indicates to some degree responsibility on the part of the province. As history has shown, if there is a difficulty, particularly in the smaller communities but even in the large communities, the province has a moral and logical obligation to protect the people in those municipalities.

The point I am getting at is that if there is a $4-billion debt, would there be extensive savings if indeed the province could guarantee a large borrowing and subsequently get the triple A rating factor, so that the net benefit to the municipalities and the taxpayers would be a lower interest rate? Pragmatically, could that be done? Is there logic there?

Mr. McColl: Yes, I guess it could be.

Mr. Ferraro: I know in Guelph—and I am sure in most municipalities—they do forecast capital expenditures and have anywhere from one- to five-year long-range planning. If we are involved indirectly or directly, would it not make some sense? What would the down side be?

Mr. McColl: I guess for Ontario the down side is not that great.

Mr. Ferraro: I think that is a recommendation that maybe this committee should explore, with one hook anyway.

Mr. Chairman: Yes, it is probably something we should follow up, and maybe we will include it in our recommendations.

Mr. Dietsch: You are probably talking about roughly a two per cent saving over the total of the $4 billion, or in that neighbourhood, in the difference of borrowing costs.

Mr. McColl: I am not a municipal finance authority at all, but my understanding is that the municipal sector has been running around $200-million-plus in borrowing per year, of which 75 per cent is borrowed by

the four major regional municipalities—Ottawa-Carleton, Toronto, Halton and Peel—and those municipalities have triple A ratings.

Mr. Ferraro: In that situation I hate to discuss whether or not it is feasible or logical.

Mr. McColl: In terms of rating agencies—and let's face it, the two US agencies have their history and culture in municipal finance, really—they would see a down side to the province's guaranteeing everything in sight; they may.

Mr. Ferraro: Or even the 25 per cent that is not triple A rating. Because you are Toronto—thank goodness for Toronto—why should they have a net benefit over Wingham, to use that as an example?

Mr. McColl: In the case of Guelph—

Mr. Ferraro: Guelph is very healthy.

Mr. McColl: —I am not too sure they are too far off the provincial—

Mr. Ferraro: No, they are not. They are extremely well done, and it is all due to the political leadership.

Mr. Chairman: I do not like to cut this off, but I think we need to spend a couple of minutes discussing the matters we discussed at the opening.

Mr. McCague: I think we need to spend a couple of hours answering some of the questions that Mr. Ferraro has raised. Yes, I agree with you, Mr. Chairman.

Mr. Chairman: All right. Perhaps that can go on a future agenda along with some of the issues that Mr. Morin-Strom raised in the opening.

I do want to thank you, gentlemen, for enlightening us on an area that perhaps we have not been looking at enough in the past. Obviously you have given us some food for thought in our recommendation. That is very helpful to us. Thank you very much again and thank you for coming on such short notice. Mr. Pelissero, you had some chance to talk to the Liberal whip but—

Mr. Pelissero: I would like to say just very briefly, I understand that there has been an understanding that there would be additional time allocated to the committee of approximately six days, I believe, to hold I am not sure what kind of hearings and/or meetings or how public they are, during two weeks in January. In fact, I believe the House leaders are still meeting. That is all the information I have. I know there is a subcommittee meeting scheduled for Monday afternoon. By then we should have more information and we could bring it back to next week's committee meeting.

In addition to that, I am also led to believe that we are going to need to request additional time to sit when the House is not in session. I am prepared to move that we request additional time for consideration for prebudget consultations when the House is not in session.

Mr. Chairman: And reporting?

Mr. Pelissero: And reporting.

Mr. Chairman: That being your motion, is there any discussion on that point?

Mr. McCague: It seems to me that we have an awful lot of work on our plate and that it is going to take a lot of time to handle all that. If Mr. Pelissero would agree, I would like to see that motion stood down until after Monday, to see if there are not some accommodations that we can make as members of this committee, through talking to our whips and House leaders.

Mr. Chairman: That motion is certainly something that we must deal with but we do, I suppose, have until the end of January, when I am assuming the House is expected to rise. Is it all right to hold that motion down?

Mr. Pelissero: Yes. I am prepared to stand it down.

Mr. Chairman: We will deal then with the issue of the two bills that are before us and what is being requested of us by the House leaders. It has been suggested that a subcommittee meeting take place following routine proceedings on Monday next, December 12, in the library behind the west members' lobby. Is that agreeable?

Mr. Mackenzie: I take it you are going to have to decide on the kind of notification for hearings and so on.

Mr. Chairman: Yes. Obviously there is going to be some interesting debate on that, I think, so the subcommittee will meet at that time. Is there anything else that needs to be said here at this time?

Mr. Morin-Strom: Just this: Is there any conflict in the committee's priorities between the prebudget and these bills?

Mr. Chairman: That is a good question. The chairman is assuming that the chronology of things would be to deal with the matters that are arising out of the 1988 budget first if we are being required to deal with those, and then to get back on track with regard to the next budget as quickly as we can. I am subject to the committee's direction, obviously.

Mr. Mackenzie: I think the one thing you had better recognize is that if that is the direction, we may have no alternative. If that is the direction, you are putting yourselves in a position where we are right back where we were a year ago. You are going to be so late getting on any prebudget that you might as well almost not be dealing with it.

Mr. Chairman: Yes, although the budget may not be as early as the Treasurer (Mr. R. F. Nixon) wanted it, due to the fact that the federal budget may not be coming out until April.

Mr. Mackenzie: That is the only saving grace you will have, but that is literally the position you are putting yourselves in, in terms of the committee's setting of priorities.

Mr. Chairman: The alternative, of course, is to make a prebudget report and then start to look at laws that are being proposed as a result of the last budget, which is possible.

Mr. McCague: I wonder if before our Monday meeting our clerk could set out just what is on our plate at present and what, if anything, is forecast for the next five weeks of sittings, so that we might have some guide

as to what we need in time and what we might do as a committee to try to accommodate time.

Mr. Chairman: Yes. All right. You can perhaps give us a list of what your understanding is.

The committee adjourned at 11:52 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TOBACCO TAX AMENDMENT ACT
ORGANIZATION
GENERAL AGREEMENT ON TARIFFS AND TRADE

THURSDAY, DECEMBER 15, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Also taking part:
Bryden, Marion (Beaches-Woodbine NDP)

Clerk: Decker, Todd

Witnesses:

From the Ministry of Revenue:
Grandmaître, Hon. Bernard C., Minister of Revenue (Ottawa East L)
Sholtack, Gerald, Director, Legal Services Branch
Russell, T. M., Deputy Minister
Moxley, Bob, Acting Director, Motor Fuels and Tobacco Tax Branch

From the Ministry of Industry, Trade and Technology:
Kwinter, Hon. Monte, Minister of Industry, Trade and Technology (Wilson Heights L)
Barrows, David S., Director, Industry and Trade Policy
Traficante, Fernando, Senior Policy Adviser, Trade Policy

From the Ministry of Agriculture and Food:
Caine, R. J., Senior Policy Adviser, Economics and Policy Co-ordination Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 15, 1988

The committee met at 10:07 a.m. in committee room 1.

Mr. Chairman: I see a quorum. Unless I hear to the contrary, we will be dealing with Bill 120, which we hope, as I understand from discussions with various members of the committee, will take approximately an hour.

Thereafter, the Minister of Industry, Trade and Technology (Mr. Kwinter) will be with us to be debriefed on his activities in Montreal with regard to the midterm meetings of the General Agreement on Tariffs and Trade. He will have with him officials who will be able to stay after 11:30 a.m., although he will only be here until 11:30 a.m.

At 11:30 a.m., or whatever time we are finished with that topic, we will deal with some matters which were dealt with by the subcommittee earlier this week.

TOBACCO TAX AMENDMENT ACT
(continued)

Consideration of Bill 120, An Act to amend the Tobacco Tax Act.

Mr. Chairman: We have with us this morning the Minister of Revenue. Mr. Grandmaître, welcome to our committee. I understand you have some comments that you would like to make with regard to Bill 120.

Hon. Mr. Grandmaître: I am pleased to bring this bill, An Act to amend the Tobacco Tax Act, before the committee today. The bill implements the Treasurer's budget of April 20, 1988, raising the tax on cigarettes and cut tobacco.

I am proposing amendments to this bill that will permit tobacco tax collectors to be designated by the Minister of Revenue rather than collectors being designated by the cabinet through regulation. This change will streamline the procedure for designating tax collectors.

I am also proposing a further amendment that will permit the Lieutenant Governor in Council to make regulations to define any term used in the Tobacco Tax Act and to establish--this is the most important one--a system of marking tobacco products to improve compliance.

Before proceeding, I would like to introduce the members of my staff: the deputy minister, Terry Russell; Bob Moxley, the acting director of motor fuel and tobacco tax, and Gerry Sholtack, our legal person.

Mr. Chairman: Is the committee ready to proceed with Bill 120?

Section 1:

Mr. Pelissero: May I move an amendment? Is that how you want to proceed?

Mr. Chairman: Yes.

Mr. Pelissero moves that the bill be amended by adding thereto the following section:

"1b. Clause 28(1)(a) of the said act is amended by striking out 'and designating the persons by whom it is to be collected' in the second and third lines."

Mr. McCague: I wonder if somebody could just explain to us what this means in nonlegal terms.

Hon. Mr. Grandmaître: I will try. If it is not satisfactory, I will pass it on to our legal person. Maybe he can better explain it.

Mr. Chairman: Better start with a layman.

Hon. Mr. Grandmaître: I am sure that the members know that in order to add to our list of tax collectors—this is not a cabinet submission—these are people whose names have to be approved by cabinet and also by the Lieutenant Governor. It is a streamlining process, and to speed up the process the minister can appoint these people. So it is a matter of streamlining the process.

Mr. McCague: These people being whom? Terry Russell?

Hon. Mr. Grandmaître: No. Wholesalers; tobacco wholesalers.

Mr. McCague: I see. Okay.

Ms. Bryden: I understand that section 1b has to be passed before you can pass section 1a, since it depends on it, and that is just to delete the authority of the Lieutenant Governor in Council to designate collectors. I understand, if I am correct, that this is really not quite housekeeping, but it is giving an opportunity to be more efficient in the collection of the tax.

Hon. Mr. Grandmaître: Streamlining the process.

Ms. Bryden: Yes. For that reason, I would support the amendment.

Mr. McCague: How many such collectors are there in the province?

Hon. Mr. Grandmaître: At the present time, we have about 120 collectors.

Mr. McCague: There are 120. No problems?

Hon. Mr. Grandmaître: No problems.

Mr. Chairman: I understand that this is meant to be an amendment to subsection 1. I notice it says section 28.

Mr. Sholtack: I believe that section 1a is the operative provision and section 1b is pursuant to that. Section 1a gives the minister the power to designate, and section 1b will remove that authority from the regulation-making powers. The two provisions go together.

Mr. Chairman: So section 1a, which is—

Mr. Sholtack: It is an amendment. It would add section 1a to the bill.

Mr. Chairman: So that really should be dealt with before section 1b.

Mr. Sholtack: First, yes.

Mr. Chairman: Mr. Pelissero, would you care to withdraw your proposal and perhaps deal with the amendment to section 1a first so that we could proceed in accordance with the chronology of the bill?

Mr. Pelissero: No problem.

Mr. Chairman: Mr. Pelissero moves that the bill be amended by adding thereto the following section:

"1a. The said act is amended by adding thereto the following section:

"3a. The minister may designate in writing any person to collect the tax imposed by this act, and the person so designated shall be the agent of the minister and shall collect and remit the tax to the Treasurer at the time or times and in the manner prescribed by the regulations."

Motion agreed to.

Mr. Chairman: Now we can deal with section 1b, which you have already moved. I will take it as read.

Motion agreed to.

Mr. Chairman: Mr. Pelissero moves that the bill be amended by adding thereto the following section:

"1c. Subsection 28(1) of the said act, as amended by the Statutes of Ontario 1981, chapter 4, subsection 6(1), is further amended by adding thereto the following clauses:

"(e) Defining any word or expression in the act that has not already been defined in the act;

"(f) Prescribing words or marks or both that shall be included on the packaging of cigarettes, cigars or other tobacco intended to be sold in Ontario, indicating that the cigarettes, cigars or other tobacco are taxable or exempt from tax under this act, as the case may be, and prescribing the location on the packaging where such words or marks shall be located;

"(l) Governing the acquisition, transportation, storage, possession and sale of marked and unmarked tobacco by dealers."

Hon. Mr. Grandmaître: As I said in my opening remarks, this is the most important amendment to the act. This would provide us with the ability to bring about an amendment to proceed with a marking system.

As you know, a lot has been said in the Provincial Auditor's report about the possibility, if I can use the word "possibility," of tax evasion and tobacco smuggling. We think this would prevent or eliminate tobacco smuggling, and this is why we are before you this morning to make regulations to define any terms used in the act, and also to permit us to go ahead with the tobacco marking system.

We have been meeting with the federal government and other jurisdictions and also the tobacco manufacturers for some time; if I am not mistaken, since

last May. I think we are very close to adopting or accepting a system that will prevent or eliminate tax evasion and would permit us to readily identify untaxed or taxed cigarettes or tobacco.

Ms. Bryden: This amendment, plus the other two, were not submitted to our party until after the minister had finished speaking in the House, even though he did mention in passing that these were coming, but he did not elaborate very much. Actually, we did not receive them until the debate was finished. I think you recall that our speakers had spoken.

I really protest as sweeping an amendment as this coming in without more notice from the minister. The bill had been introduced on April 25, so he had had lots of time to see what items needed amending. I think he should have notified the opposition parties much earlier of the plan to bring in this 1c. Sections 1a and 1b were sort of housekeeping measures to simplify and speed up the enforcement, but 1c is a different kettle of fish.

I think the members of the committee should be aware of what we are doing, particularly by 1c(e), which I will speak to first, and that is that we are really giving over the legislative power to the regulatory authorities or to the Lieutenant Governor in Council, because it does have to be carried by an order in council.

There are already 10 words in the act that are defined because it was considered important, but this just gives the minister and the Lieutenant Governor in Council complete power to define any word or expression that has not already been defined in the act and to define it as they see fit, without any reference to a committee of this sort or to the Legislature.

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It could have very far-reaching consequences. In fact, as I say, you could really just eliminate the Legislature if you had this in every single act and had most words not defined. I think this is something we should not be promoting; we should be curbing it instead. I have noted a trend in recent legislation to empower the Lieutenant Governor in Council to do this, to define every word or expression not specifically defined. But some of those acts are very specific about their functions and their mandate, whereas the Tobacco Tax Act is not as specific.

When it is discovered, in order to prevent tax evasion, I would really like to ask the minister why it would not be possible to stipulate that a certain word must be defined in such and such a way? Why can he not bring it to the Legislature, let us know what the problem is and what we are being asked to do to correct it?

The lawmaking power rests with the Legislature, not with the regulation drafters who may then come up with a definition that has to be passed only by the Lieutenant Governor in Council. It seems to me that if you had to come back to the Legislature you would be much more careful as to which words you would decide to define and with what definition. I think you would try to confine any use of the regulatory power mainly to routine and housekeeping matters, but not to matters that might become substantive law as to how to enforce the collection of the tobacco tax in the province.

Does the minister know whether other provinces have similar clauses or similar ways of enforcing their tobacco tax? Could he also explain why it would not be better—say every year, or whenever the House is sitting—to

bring new definitions to the Legislature with more explanation as to why they are needed?

Hon. Mr. Grandmaître: First, I would like to apologize to the member who feels that she did not receive adequate preparation time for these amendments. Personally, I thought that the budget which was introduced on April 20 would have provided members with adequate time to look at these amendments. I apologize if the member feels that—

Ms. Bryden: If we had them.

Mr. Morin-Strom: If we had had them on April 20.

Hon. Mr. Grandmaître: I think if we had been able to read the budget in the House, everybody would have received a fair warning of what the intention of this bill.

Mr. Morin-Strom: The amendments were in the budget?

Hon. Mr. Grandmaître: No, the marking system was in the budget.

Ms. Bryden: That is 1c(f). I am talking about 1c(e).

Hon. Mr. Grandmaître: Clause 1c(e): At the present time, the province of Quebec does have a marking system. It is the only province that I know of in Canada that has a marking system.

Ms. Bryden: That is clause 1c(f). We are talking about clause 1c(e) at the moment. That is what my question was about.

Hon. Mr. Grandmaître: This new marking system is very complex. Also, new products are being added on the market: near-tobacco and tobacco sticks, they call them. We have not experienced this pleasure, if I can call it that, in Ontario. At the present time, the province of Quebec is experiencing these new products, near-tobacco, tobacco sticks and so on and so forth. This is one of the reasons why we are asking for that amendment.

Would the deputy minister like to add anything else on this?

Mr. Russell: No. Essentially, I think that is it. Indeed, we do know of a whole range of new types of competitive products being developed. Some of them are actually being field tested in Quebec at the moment.

We know otherwise that other major manufacturers are developing similar sorts of reactive or competitive products. Typically, these involve different ways of packaging tobacco and mixing tobacco with other substances to the point where we perhaps can anticipate some question as to whether somebody would say they have been sufficiently changed from the common or traditional understanding of what a cigarette is in fact not to be a cigarette or tobacco for taxing purposes.

It is important for us to be able, right from the very outset, to impress upon the makers, sellers and importers or whatever of these products that we do intend them to come within the tax net. We will have very little tolerance for near-tobaccos in effect becoming an important part of, if you like, evasion—not evasion in the sense of a negative intention but in terms of the competitive play of the market. They could very much work to further erode our tax system in this area.

I think the point is well taken that perhaps we are assuming to ourselves, if you like, an ability to say something is something just because we say it is in the first instance. Again, if we allow these things to occur, to move on our market without this type of fairly clear statement of intention on our part and some show of ability to back up what we say with some sort of credible enforcement, we do worry about this sort of problem very quickly getting out of hand. It might perhaps be dealt with by subsequent consolidation.

Eventually, we will find out about all of these things: what sorts of words we need, what sorts of powers we need and so on. I see nothing wrong with that. In fact, there are presently processes by which we might otherwise attempt to consolidate and clarify our statute as we move along. Uncertainty and loose powers hanging around in this way are as much a disadvantage to us as they are to the customers.

Ms. Bryden: The minister did not answer my question, nor did his counsel. The question is, do you need the power to define any word or expression in order to implement 1c(f)? I think we are all in favour of 1c(f) and developing a system of controlling this packaging of the different kinds of tobacco products and having it clearly indicated as to what tax applies to them. But is it necessary to give this huge power under 1c(e)? Whatever is needed for controlling the marking and packaging of cigarettes can be done under 1c(f).

Really my question is, why do we need 1c(e)? It is a very broad extension of legislative powers to the Lieutenant Governor in council and a trend that I think we should be opposing.

Mr. Chairman: Although, I take it you are prepared to see a definition in here to meet the problem that has just been suggested.

Ms. Bryden: Yes, I think it says you can prescribe words or marks to be included on the packaging.

Mr. Russell: It is my understanding that we need it in order to define what a cigarette is.

Ms. Bryden: Why is that not in the bill?

Mr. Russell: Because you do not know what a cigarette is.

Ms. Bryden: This committee of the Legislature is to decide if your definition is correct or what they want to control?

Mr. Russell: You probably defined what we presently understand to be a cigarette, but our concern is that there are other products coming along which are arguably and will be argued not to be cigarettes. They might have tobacco in them, but people will argue that they are not cigarettes in the normal sense, as anticipated or expected by the Legislature, and as the tax system has been practised traditionally. If that exists, it is absolutely certain that we will be challenged. The prize for an effective challenge in this area and the creation of a long period of uncertainty and delay is enormous.

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Ms. Bryden: We might consider an amendment, just to have clause 1c(e) define the word "cigarette" and not give that complete blanket power to

define any word or expression. The minister can still open up the act every year and bring in new words or expressions for other purposes, but it appears that "cigarette" is the basic problem in order to decide what kinds of tobacco products are taxable. You would have to define the other products too.

Mr. Chairman: Are you proposing an amendment, Ms. Bryden?

Ms. Bryden: Yes, I would like to move that (e) be dropped and that (f) may be changed to "prescribing words or marks" and "defining words" needed with regard to the implementation of (f).

Mr. Chairman: You are moving that (e) be dropped and that (f) be changed to read——oh, I see.

Ms. Bryden: "Prescribing and defining words or marks." You just add "defining" words or marks. This is a question of defining words, "prescribing and defining words or marks or both that shall be included."

Mr. Chairman: Ms. Bryden moves an amendment to delete clause 1c(e) and amend clause 1c(f) by adding the words "and defining" after the word "prescribing."

All right, that amendment is on the floor. I had three other hands up with regard to the motion. Does anyone wish to speak to the amendment?

Mr. Haggerty: I see no problem even with clause 1c(e) being in the section there. When we talk about the regulatory powers here handed to the Lieutenant Governor in Council, I must remind the member that you do have a committee of the Legislature, the standing committee on regulations and private bills, that reviews all regulations that have been handed down through the chain from the cabinet office on down, so there is a safety valve in the system.

Also, there is a committee within the cabinet structure that reviews the proposed regulations, so you have two safety valves there, but normally——

Ms. Bryden: Why do they not share the review with the Legislature?

Mr. Haggerty: It can be flagged. If there are any areas that do not follow the principle of the bill itself, say in the regulations, then they can be removed by the committee, so there is that safety valve there.

Ms. Bryden: It should not just be a committee of cabinet.

Mr. Haggerty: I have some other questions I want to get in.

Mr. Chairman: On Ms. Bryden's amendment?

Mr. Haggerty: Well, no.

Mr. Chairman: I still have your name down if the amendment is through.

Mr. Haggerty: I was just saying that on that particular amendment, I do not think that changes——"prescribing and defining words or marks." When I look at the word "marks," I do not know what that means. What do we mean by "marks"?

Interjections.

Mr. Chairman: Maybe we could have that question answered.

Mr. Sholtack: A mark would be something that is not a word. It could be a symbol, the map of Ontario, or some symbol that is not a word. A word has a definite meaning in the language. A mark is something broader.

Mr. Haggerty: In "marks" here, I think the minister has indicated in the auditor's report about the bootlegging, you might say, of tobacco products within the province. Had there been any indication that there had been certain marks indicated that it is a product of Ontario or something like that? When you look at the unmarked tobacco, you talk about Quebec and that. Are there any other areas that we are looking at? Let's take marijuana, for example. Is there any possibility that marijuana can be blended in with Ontario-grown tobacco?

Hon. Mr. Grandmaître: I had a difficult time getting rid of my smoking habit. I have not thought about marijuana yet.

Mr. Haggerty: When you say "unmarked tobacco," is it a product coming in from offshore?

Mr. Russell: Unmarked tobacco is literally that. It is packaged tobacco which has no distinguishing mark as to its origin and more particularly to the possibility that tax has been paid anywhere.

If you like, a product moves freely from one province to another in Canada and you would never recognize it. It is unmarked so it is indistinguishable in terms of its having been subject to tax or being moved within the systems which are known to taxing authorities.

That is all "unmarked" means in this context. It means, more particularly, that our intention is to mark them in such a way that we can identify where they come from, where it is intended they be used in Canada, and therefore that they be subject to our tax.

Mr. Haggerty: Well, I kicked the habit years ago but I remember, when you bought cigarettes at one time, there used to be a little stamp on there that had the tax stamped right on there.

Mr. Russell: It would have been a federal tax.

Mr. Haggerty: I do not know but it used to be there.

Mr. Russell: It was a federal sticker. Part of the problem here, of course, is that while we do work closely with the federal people, their interest stops at the point of being concerned about where in Canada cigarettes are, in fact, sold. Their tax is the same across the country. As long as they can keep some system which protects against illicit importations, their interests are served. Their tax is, if you like, collected at the border.

For the provinces, it is a different matter. We all have separate interests. We want to know what is used in Ontario, and every other province has a similar interest. The feds do not share that interest; it is of no particular purpose to them. So that sort of sticker was just a Canada-wide excise sticker saying that, one way or another, this product has been subject to federal excise tax. We need to go further.

Mr. Haggerty: Is that tag still on?

Mr. Russell: I am not even sure it is still on. I think it went off some years ago.

I am not sure we were convincing to Mrs. Bryden. Perhaps we could go at the essence of her question in a slightly different way. I think we are indeed seeking a set of powers here, but I would like to be able to think we could convince her that we are doing it for well-considered reasons. Perhaps the best way to do it, since apparently I was not so terribly clear when I answered, would be to move somebody else on the case and see if it can be done a bit better.

Mr. Pelissero: Just a clarification on that point in terms of the difference between clause 1c(e) and (f): Is not the purpose of having 1c(e) in, as the minister was alluding to earlier in terms of trying to define what constitutes a cigarette or tobacco product, just so that it is more of a preventive method of making sure that we are able to tax it without the manufacturers coming up with a unique way of packaging it so that it would not be subject to tax? Is that not the purpose of 1c(e)?

There is a difference in my mind between 1c(e) and (f) because you are then talking about marking that particular product. It is no different than any time you are trying to define something: People will take it either that it does not mean this or does not mean that. To me it just allows the preventive method of opening something up, then the manufacturers challenge the government in court and say it does not say it in the act and we have to try and close the barn door after the horse has bolted, so to speak. My understanding is that the only purpose of 1c(e) is to prevent that from happening.

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Hon. Mr. Grandmaître: The member is right, due to the fact that we do not have a definition for a cigarette and knowing that other products are being introduced on the market, which we are unaware of. We know that they are on the market, but we do not know what their composition, and so on and so forth, is. This is why this is a protective clause for us, so that we can present further amendments. It is also to speed up the process. But I am sure that the director, Mr. Moxley, can shed more light on clause 1c(e).

Mr. Moxley: The additional reason that this particular addition to the regulation-making powers is being proposed is that the act is currently structured to provide a particular rate on cigarettes and a rate on cigars, and then everything else that contains tobacco is taxed at a residual rate.

If someone were to market a product in Ontario today that was very close to being a cigarette--let us call it a near-cigarette--that required some very minor step on the part of the ultimate purchaser or consumer to make it into what would be considered a fully finished cigarette, we would in all likelihood, lacking the power to define terms and include that as it would really be intended to be in turn included at the tax rate applicable to cigarettes, have to tax that product at the rate of cut tobacco.

We know that one product has been developed by one manufacturer, and as the minister has indicated, has been test marketed in Quebec and, in fact, in a couple of other markets. It has not yet been introduced into Ontario. We know that other manufacturers are developing competitive products.

The net result is that these products would be formed in such a way that rather than attracting tax at the rate of $7.66 per 200 cigarettes, they would attract tax at the rate of $2.86, I think the figure would be, if they were taxed on a per gram basis.

That clearly was not the intention, but right now it is possible to structure and create a product which would fall just outside the definition of cigarette. It would be a tax loss to the province on the basis of a technicality or a loophole.

Since there is the ability currently to develop such products and market them, and we know that it is being done and such products could be introduced into Ontario, it is important, even if we do not know every form these products will take, for us to have the ability to capture tax at the appropriate rate on the products.

Mr. Russell: It is not just the definition of cigarettes, in that sense; we are interested in being about to shuffle several types of products into several types of categories. Is that right? We are interested in being able to define cut tobacco?

Mr. Moxley: We could. Or cigars.

Mr. Russell: Cigars. What about snuff and chewing tobacco?

Mr. Sholtack: Tobacco is presently defined. It is sort of a basket clause.

Mr. Russell: We are putting them into different tax brackets--

Mr. Sholtack: That is right. Tobacco is defined as anything that is not a cigar or a cigarette.

Mr. Russell: It is best to arrange it hierarchically. In other words, we are interested in slotting products into a table of tax rates such that they are not just something tumbled down to the lower bracket through the device or the argument that "this is not what a cigarette is," or "this is not what cut tobacco is." Is that what we have in mind?

Mr. Sholtack: Yes. Regulations are subordinate legislation. They cannot contradict the act. The basic structure of the act is set out in the act and that is the function of the Legislature. Subordinate legislation merely fills in the details. In tax legislation, which is very closely watched, the cabinet needs the power to fill in details so that we do not lose revenue because of a loophole, because something has not been defined.

Mr. Pelissero: So it then does not show up in the Provincial Auditor's report next year.

Mr. Sholtack: That is right. These provisions are common in all of our other taxing statutes, but for some reason the Tobacco Tax Act did not have this provision in it. Sales tax, corporation tax, all the other taxing statutes do have that power already.

Mr. Pelissero: To define?

Mr. Sholtack: To define.

Mr. Pelissero: To define any word?

Mr. Sholtack: To define any word.

Mr. Pelissero: Then we cannot accept your amendment.

Mr. McCague: I can recall this same argument coming out many times in the past when it was thought that the words used were words that would give the ministry the power to do things that members thought the Legislature should be the judge on.

I do not see anything particularly wrong with clause 1c(e). I would have been happier if you had seen fit to drop the two words "or expression." That may be a little more sweeping than you meant. What got you into trouble was the explanatory note which says, "to make regulations to define any terms used in the act." That is a little wider than what it actually says about defining a word or expression. I would like "expression" taken out.

I want to just mention that I do not see anything particularly wrong with it, because clause 1(o) of section 28 says that the Lieutenant Governor may make regulations "respecting any matter necessary or advisable to carry out effectively the intent and purpose of this act." I am sure if we had clause 28(1)(o) of the act before us today, we would be complaining about that. The problem is that it is already in there. I guess we had better leave it there.

Mr. Chairman: How long?

Mr. McCague: I do not know what year this is; 1987? You put it in, Mr. Chairman. I am quite happy to support clause 1c(e), but I would be happy if you would withdraw "or expression."

Mr. Morin-Strom: The concern I still have is why you need this, given what Mr. McCague just pointed out concerning the power you already have in terms of making any regulations required to carry out the purpose and intent of the act. You have that purpose under that clause 28(1)(o). What is this doing that that section did not do?

Hon. Mr. Grandmaître: I must admit that I do not have it before me. I am not too familiar with it, but I do believe Mr. McCague when he refers to clause 28(1)(o). Maybe Mr. Sholtack can enlighten us.

Mr. Sholtack: The difficulty with that section is that legislative counsel does not consider that an appropriate regulation-making authority. It is too general as far as they are concerned. They will not recommend any regulations pursuant to that clause. In newer statutes, we are taking it out. Therefore, we need something more specific, such as defining any word or expression in order to do that. That is the explanation as to why we are just not proceeding to make a regulation under clause 28(1)(o), but we need a specific authority, such as clause 1c(e), to be able to make the regulation that we are seeking.

Mr. Morin-Strom: Given the concern that clause 28(1)(o) is too broad and sweeping, would you not have the same concern or could the same concern not come up in the future about how broad the sweeping clause 1c(e) is? Should we not instead be taking into account my colleague's concern that rather than defining any word or expression, we should say specifically what words and expressions we are going to allow to be defined by the regulations?

Mr. Sholtack: The specific authority is quite specific. It talks about defining words not already defined. That concern is not something that legislative counsel has. As I indicated, we cannot define any term to contradict the provisions of the act. It is merely there to close possible loopholes in a more rapid manner, I suppose, than requesting the Legislature to deal with another bill. Things do come up periodically in tax administration that require speedy remedy if tax loss is to be avoided.

The provision is there in all of the other taxing statutes and has never been commented on as being abused by the ministry officials. Those powers have been in those other acts for many years. It is a safety provision for us to deal with the kinds of issues that come up when new products are being marketed, as the minister indicated.

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Mr. Chairman: Is there anyone who has not spoken on the amendment who wishes to do so?

Mr. Haggerty: There is George McCague's suggestion.

Mr. Chairman: That is a suggestion. I think Mr. McCague indicated he was opposing the amendment, as I recall, and he has another suggestion.

Mr. Haggerty: No. I did not understand that.

Mr. Chairman: Is there anyone who has not spoken on Ms. Bryden's amendment?

Mr. Haggerty: I just want to follow up on George's comments. I think he makes some sense here. In defining any word or expression, to me an expression means that somebody arrives at an opinion. I do think they should arrive at one. The words should define what the intent is. I see no difficulty in dropping "or expression."

Mr. McCague: I hope I indicated I would be supporting this as written; but as a nice gesture right close to Christmas, and as an improvement, I suggested that "or expression" be dropped from it, which Mr. Pelissero could easily do if he so desired.

Mr. Chairman: That depends on his Christmas spirit. Let's deal with Ms. Bryden's amendment first. I will let you conclude before we vote, Ms. Bryden.

Mr. Russell: I have just a small point to do with Mr. McCague's point. This is a sort of grammatical point. You say "word or expression." What we mean by expression is several words. Is that it?

Mr. Sholtack: Yes.

Mr. Haggerty: I do not think you guys are sure what you want.

Mr. Russell: We are. It says "word or expression," and in this context we have clarified it, I think. What we mean is that a string of words is an expression.

Mr. McCague: I understand that perfectly and that is what we are afraid of.

Mr. Russell: Word and words.

Ms. Bryden: To wrap up, as the mover of the motion, I still can see no need for substituting this clause 1c(e) because of the clause 1c(o) that is in the act, although I understand it is not very much used; but the power is there.

Also, if you add the words "prescribing or defining," under clause 1c(f), you have in effect covered the problem of having to make definitions, and that is really what we are after: to make definitions of what is taxable and what is not taxable. But we get rid of your concern about "expression" if we just delete clause 1c(e) entirely, as my amendment proposes.

Mr. Chairman: Ms. Bryden has moved that the motion by Mr. Pelissero be amended by deleting therefrom clause 1c(e) and adding in clause 1c(f) after the word "prescribing," the words "and defining." Are you ready to vote?

Ms. Bryden, do you have a substitution slip? I have been informed by the clerk that you do not have a vote.

Interjection: Well, she must be out of order.

Mr. McCague: A good point.

Mr. Chairman: With the committee's unanimous consent, Ms. Bryden may participate in the vote. No?

Ms. Bryden: I did receive from the secretary of the committee a notice to attend this meeting as the critic for this particular bill, and I assumed that it being a special meeting of clause-by-clause--which had not been planned to come into this committee at all--that I would be entitled as the critic to participate as if it were in the House. This is a special substitute procedure for something that would normally be done in committee of the whole House.

Mr. Chairman: I understand your predicament, but I need unanimous consent from the committee. Unanimous consent?

Agreed to.

Mr. Chairman: All right. Are you ready for the question?

Motion negatived.

Mr. Chairman: Mr. Pelissero, do you have a response to Mr. McCague's request for Christmas cheer?

Mr. Pelissero: Yes. Christmas cheer would say, "defining any words in the act...." Delete "or expression."

Mr. Chairman: You are looking at clause 2(1)(e) and taking the word "word" and replacing it with "words" and deleting "or expression"?

Mr. Pelissero: Yes. Correct.

Ms. Bryden: I wanted to discuss clause (1), but we are just voting on (e) at the moment?

Mr. Chairman: The whole motion is on the floor, and in a moment I will hear you if you have another amendment, but at the moment the minister has the floor.

Hon. Mr. Grandmaître: "Defining any words in the act that have not already been defined in the act."

"Have not" instead of "has not."

Mr. Pelissero: Thank you for correcting my grammar.

Mr. Chairman: All right. Now you have basically amended your own motion; so I will treat it as the motion on the floor.

Now (e) reads: "(e) defining any words in the act that have not already been defined in the act."

Ms. Bryden: "Word," not "words"?

Mr. Chairman: "Words." Plural. That is why we have to say "have not."

Does anyone wish to speak to that? Ms. Bryden, do you have anything?

Ms. Bryden: No.

Mr. Chairman: The whole motion is on the floor. So you may speak to (l) is you wish to.

Ms. Bryden: Clause 2(1)(l) is another clause that is very sweeping and gives very great powers to the Lieutenant Governor in Council over an entire industry. People who are concerned about the rights of industries, corporations and so on should also be concerned about this because it covers almost every aspect of any business operation connected with the tobacco industry. It possibly could even cover the people who grow tobacco as well as people who sell it or transport it or store or have it in their possession.

I am not going to move an amendment to this, but I am going to ask the minister to keep the Legislature apprised of whatever actions are taken under this clause. If it affects an individual company, if it is forbidden to do something or if it affects a whole industry like the producers of tobacco, all of this should be brought to the Legislature in the way of ministerial statements or reports answering questions at estimates consideration and so on.

I think we will very much want to monitor how that power is used. In this case, I am speaking in defence of the industry rather than the consumers, but I think the industry needs protection from these kinds of very much broader, what could be arbitrary powers.

Hon. Mr. Grandmaître: We will be delighted to share with you any progress, and that is a fair request.

Mr. Morin-Strom: Concerning clause 2(1)(l), I would like to know what the real intent is of adding this clause. Why is this necessary?

Hon. Mr. Grandmaître: It is very difficult to identify tobacco at the present time because of our nonmarking system. Can you add something?

Mr. Russell: It is essentially supportive of the first part. We want a mark to be marked; that is one thing. But in the real sense where you encounter this problem is in the movement of the stuff and the enormously complex ways in which people can move product around. We want to be able to catch it on the roads, when it enters the province, when it moves into the cigarette vending machines or out of them or whatever. It is by its nature that all of this is conducted in such a way as to obscure the movement of stuff so that we cannot detect, notice or see it. So this is generally to the point that wherever we see it, wherever it becomes visible, we can get it at that point. That is essentially it, is it not, Gerry?

Mr. Sholtack: Yes. It is essentially to be able to control and to indicate how the marked and unmarked tobacco is to be dealt with; that is all.

Hon. Mr. Grandmaître: At the present time, we have no marking system. We do not know where this product or products originated: from Quebec, British Columbia or Alberta and so on and so forth.

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Mr. Morin-Strom: Is one of the concerns the control of tobacco products, or lack of control, from your perspective, of tobacco products on Indian reserves?

Hon. Mr. Grandmaître: On Indian reserves?

Mr. Morin-Strom: Yes. I wonder if you could comment about whether this is necessary for your control and whether that is a particular concern.

Hon. Mr. Grandmaître: This new marking system will certainly help us to control tax evasion and the smuggling of tobacco, but I want to remind the members that we do know of some—some—Indian reserves that are possibly taking advantage of the system. Yes, we are concerned, but no, this is not intended to earmark, let's say, Indian reserves only.

Mr. Russell: It is a different problem than the one perhaps we are addressing here.

Mr. Morin-Strom: What is your intent with regard to the control of acquisition, transportation, storage, possession and sale of tobacco on Indian reserves?

Mr. Russell: It might be worth taking a moment to explain what action and what line we have taken over a number of years to control the problem of untaxed cigarettes moving off Indian reserves. I refer to the whole constitutional matter that Indians are entitled to consume products tax-free on their reserves, and that principle has been followed for years in this province in respect of sales tax, gasoline and fuel taxes and so on.

The problem occurs when these products are brought on to the reserves and declared to be for use—in other words, for exempt Indians—and then immediately moved off and sold tax-free in the broader market.

Various jurisdictions in North America and Canada have attempted to control this, and generally it has involved the notion of restricting the Indians' rights to uncluttered, unimpeded consumption of tax-free products. Quebec, for example, has a system whereby they say: "Yes, we don't dispute +our right as Indians to take product and consume it without tax, but you pay the tax first. Then you prove you're an Indian and we'll give you the money back."

We have gone another route. We engaged over a number of years in negotiations and discussions with each Indian reserve and band to try to establish, in effect, a quota system where we say, "How much product do you need on your reserve to serve your people's needs?" We allow a margin for underestimation or whatever. There are competitive stores on reserves and they each might be ambitious that they can steal or get more of the market against the other than necessary; so it is a fairly generous process we go through. Whatever reasonable amounts they say they need, then that is provided to them and it is provided tax-exempt so they do not have to go through the process of paying tax and claiming rebates.

In a great majority of cases, the leaders and the authorities on the reserves have been content, co-operative certainly, with that process. It is also the case that the Indians themselves are very concerned about having their territories used for illicit purposes. Along with it come some other rather nasty practices, which they do not particularly want to be part of their community.

By marking we are not expecting to disturb the way we deal with Indians. Not at all. We would not use this set of powers on an Indian reserve. We would use them outside an Indian reserve. If we got a signal that some stuff was moving off a reserve, yes, we would like to catch it two yards inside or outside of the reserve, but we would not conceive of using this in any explicit way towards Indians.

Mr. Morin-Strom: You are not planning to change the process of your current control or dealings with the individual Indian reserves on the Indian reserves?

Mr. Russell: We will stay with the negotiated co-operative quota system.

Mr. Cleary: Just in the way of a comment: The change would be welcome in our part of eastern Ontario because it has caused us considerable problems over the years. I was glad to hear the deputy's comments because I sure share your feelings on it.

Mr. Chairman: I recall hearing some comments from a cab driver in Cornwall once to that effect, yes.

Mr. Cleary: Yes.

Mr. Morin-Strom: The change on what? What is the reference to? You are glad to hear the comments on the change to what?

Mr. Cleary: To this particular bill, or section, I guess, which will solve some of the problems in our part of eastern Ontario.

Mr. Chairman: Are you ready to vote on section 1c as amended by Mr. Pelissero, with the amendments, you recall, on clause 1c(e)?

Motion agreed to.

Mr. Chairman: We have now added the sections 1a, 1b and 1c to Bill 120. We need to carry section 1, section 2 and section 3 of the bill as it was referred to us by the Legislature.

Section 1, as amended, agreed to.

Sections 2 and 3 agreed to.

Bill, as amended, ordered to be reported.

Mr. Chairman: Mr. Barrows, is your minister in the wings? Do you want to start? Were you in Montreal?

It is my understanding that the assistants Mr. Barrows and Mr. Traficante, from the Ministry of Industry, Trade and Technology, are here to supplement Mr. Kwinter's presentation. If Mr. Kwinter is not here, perhaps they could begin it.

Mr. Traficante: The minister should be here.

Mr. Chairman: All right. Why don't we take a break until he arrives.

Mr. Pelissero: I was going to suggest, before you break, Mr. Chairman, that we report back some of the subcommittee recommendations now.

Mr. Chairman: All right. We can do that right now.

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ORGANIZATION

Mr. Chairman: The subcommittee met on Monday and made some decisions subject to ratification by the full committee. Some of that material is in front of you.

First, there was a decision made by the subcommittee to place advertisements in newspapers. I think the decision was basically the same process as was done with the prebudget advertising; that would be the daily newspapers in the province, but not weeklies. I think there was a list of maybe five ethnic papers that would be included.

As a result of that, Mr. Decker has prepared a draft advertisement. You will note in that draft advertisement that he has given proponents until January 6 to inform us if they wish to make oral submissions and until January 13 for written submissions.

You will note a draft of scheduling through January, which would involve our obtaining extra sitting time in the weeks of January 9 and 16 to deal with Bill 122. I would presume that if we finish dealing with Bill 122 before the end of that time, we could move back to prebudget hearings. Perhaps it is appropriate to take a look at that schedule before you look at the wording of the advertisement.

Of course, we would need a motion in this committee to deal with the report of the subcommittee and a separate motion for the ad.

Mr. McCague: I move that it be adopted.

Motion agreed to.

Mr. Chairman: That, then, really entrenches our scheduling, subject to the usual discretion you give the chairman.

The timing on the presentations on Bill 122, does that seem suitable—January 6 and January 13?

Mr. McCague: I move that the whole thing be adopted as a package.

Mr. Chairman: That has been passed. Could we have a second motion with regard to the placing of the advertising?

Mr. McCague: I will so move if that is what you need.

Mr. Chairman: It would be virtually the same motion as last time: all the English daily newspapers in the province; Le Droit, which is a daily newspaper, and five ethnic newspapers which the clerk has the names of.

Motion agreed to.

Mr. Pelissero: Embodied in that first motion by Mr. McCague was the assumption that you are going to be requesting additional time to sit during the week of January 6 and January 13, if necessary, on the Tuesday, Wednesday and Thursday afternoons. If we finish up earlier, we could possibly switch back to prebudgets or wait until going to prebudget on January 26.

Mr. Chairman: It is my understanding that those arrangements are being made by the House leaders. We have not received any information concerning that. Are you asking that the chair make the request?

Mr. Pelissero: Yes.

Mr. Chairman: That would be Tuesday afternoon and Wednesday afternoon—you mentioned Thursday afternoon.

Mr. Pelissero: Just Tuesday afternoon and Wednesday afternoon.

Mr. Chairman: Tuesday afternoon and Wednesday afternoon—

Mr. Pelissero: Yes.

Mr. Chairman: We have a long-standing request in to sit on those dates. How would you wish me to make the request? Just a specific one for this period? Do you want me to do any reminding?

All right. All in favour that the chairman request permission from the House leaders to sit on Tuesday and Wednesday afternoons following routine proceedings on January 10, 11, 17 and 18 for the purpose of dealing with Bill 122 and, if time permits, prebudget hearings.

Mr. McCague: No.

Mr. Chairman: I thought I saw a nod from Mr. McCague and I thought that would mean it would be unanimous.

Mr. McCague: I thought what you would be doing is seeking permission to accommodate this schedule, now that we have adopted the schedule, pure and simple.

Mr. Chairman: Yes, and I thought the understanding was that when we complete Bill 122, we can go right back into prebudget, whenever that may be. Does that not meet with your approval, Mr. Morin-Strom?

Perhaps we can complete this discussion later this morning. The motion is on the floor; it will be tabled and dealt with later this morning.

GENERAL AGREEMENT ON TARIFFS AND TRADE

Mr. Chairman: I welcome the Minister of Industry, Trade and Technology, Mr. Kwinter. We are looking forward with eager anticipation to your reporting to us on your GATT meetings in Montreal. We read, of course, the material in the paper.

This committee was in Geneva in late September at the opening week of the fall round, and at that time there was an incredible amount of optimism to the effect that Montreal would be the watershed. There was a great feeling that Montreal would result in some very basic directions to the GATT for the future. I suppose there was a suggestion that if it did not happen then, it was not going to happen. So we have been reading the media reports since then, and perhaps you can enlighten us on what has happened.

Hon. Mr. Kwinter: I would like to apologize for being late. This is the third committee I have appeared before today and I am going to another meeting which I am supposed to be at in exactly 12 minutes.

What I would like to do is give you an overview of what we had hoped to do at the GATT meetings and what happened. Then I am going to have to leave to carry on with my other meeting. But I have David Barrows and Fernando Traficante, who were with me in Montreal attending the GATT briefings and meetings, and they will be able to answer any questions that you may have.

In my comments this morning, I would like to provide you with our assessment of the progress made to date in multilateral trade negotiations, particularly the results of the recent GATT ministerial meeting held in Montreal.

Ontario's objectives in the Uruguay round of negotiations had five main thrusts:

To improve access to the markets of Ontario's major trading partners;

To stabilize market access by ensuring that rules governing the use of trade remedy actions constrain excessive use of such actions as protective measures;

To preserve the GATT trading system through strengthening the institutional mechanisms of the GATT such as dispute settlement;

To improve market access to developing countries while recognizing that developed countries will need to make concessions in the areas of interest to these countries, such as tropical products, and last,

To ensure that the liberalization of Canadian markets is consistent with effective industrial and labour adjustment.

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The Montreal ministerial meeting, or the GATT midterm review, was designed to assess progress in negotiations thus far and to provide political direction to negotiators for the remainder of the Uruguay round, scheduled to end in 1990. I think it is important that you understand that. If there was one thing that I found from those people who were in Montreal who were not absolutely directly involved in the negotiations, it was an expectation that there would be a resolution coming out of Montreal. When you understand that

it was only a midterm review, sort of a checking in to see how things are going, where the problem areas are, if there is something we can resolve now and, if not, how do you think we can do it and how do we continue on, I think there was an expectation there that was not realistic, a nonrealization of exactly the purpose of the meetings.

Ontario regrets that the midterm review, the first such ministerial meeting in the history of the GATT, did not meet its intended objective of providing a firm negotiating framework for the next two years. The 96 contracting parties in the GATT had reached tentative agreement in 11 of the 15 negotiating groups. However, due to the inability to reach an accord on the most contentious issue, that of agriculture, it was agreed by the GATT to place all of the agreements in other negotiating groups on hold.

You did not really get a true feeling, reading the communiqués, what was really going on. They had really come to terms on 11 of the 15. There were two others where they felt they could have come to terms, and there were only three that were really the contentious issues.

The parties are agreed to meet again in April 1989 in Geneva, at the officials' level as opposed to the ministerial level, to attempt to reach a compromise on the outstanding issues. The April meeting in Geneva is seen as a continuation of the midterm review.

In the agricultural negotiations, the stumbling block was the inability of the United States and the European Community to agree on the long-term goals of the agricultural negotiations. The US seeks a long-term elimination of all trade-distorting agricultural subsidies, while the European Community is willing to negotiate only the reduction, not the elimination, of such subsidies.

I also think it is quite interesting that after the first day, Clayton Yeutter was quoted as saying, "No deal is better than a bad deal," and yet one of the most common things I heard in the free trade negotiations and in my talks with people about free trade was the feeling that any deal was better than no deal. It just depends where you are coming from as to what the perception is going to be.

Ontario endorses the effort to bring more stability to global agricultural markets for efficient producers through progressive trade liberalization. Ontario has supported the proposals made by Canada and the Cairns group, of which we are a member, to address trade-distorting measures in negotiations on long-term agricultural reform as well as short-term measures.

The other negotiating areas where agreement was not reached in Montreal included trade-related aspects of intellectual property rights, safeguards and textiles and clothing. It is believed by Canadian and other negotiators, however, that the differences in these other groups are not insurmountable and that these issues will likely fall into place fairly quickly once agreement is reached on agriculture.

Negotiations on intellectual property rights broke down primarily due to India's unwillingness to accept the development of new norms and standards for intellectual property protection. For its part, Ontario wants to ensure that an agreed framework allows negotiations on the nondiscriminatory enforcement of intellectual property rights, particularly in relation to the US use of section 337 of its trade law.

The main points of disagreement in the safeguards negotiation centred on the issues of nondiscriminatory applications of safeguard measures and the incorporation of grey-area measures, such as voluntary export restraints, into the GATT safeguards procedures.

In textiles and clothing negotiations, this agreement focused on how and when to integrate the multifibre arrangement into the GATT.

As I said earlier, the disagreements in these three areas, particularly in safeguards and textiles and clothing, are expected to be resolved quickly once agreement is reached in agriculture. Between now and next April, the director general of the GATT, Arthur Dunkel, has been given a mandate to consult with the GATT members and endeavour to obtain agreement in these four remaining areas.

But I do not want to dwell too much on those areas where agreement could not be reached. Indeed, in 11 of the 15 negotiating groups, solid progress was made. It is a considerable achievement that GATT ministers agreed to negotiating frameworks on a range of significant and complex issues.

On tariffs, GATT ministers agreed to principles that will provide for substantial reduction or elimination of tariffs by all participants as appropriate with a view to achieving lower and more uniform rates, including the reduction or elimination of high tariffs, tariff peaks, tariff escalation and low tariffs. The agreement also called for overall tariff reduction of not less than that achieved during the Tokyo round; that is, about 33 per cent.

The tentative agreement on tariffs appears to address Ontario's main objectives in obtaining improved access to foreign markets. The major question yet to be addressed is how the tariff reductions would be implemented: through a formula approach or on the basis of request-and-offer negotiations. The approach will largely determine the scope and nature of tariff reductions resulting from the Uruguay round.

On subsidies and countervailing measures: GATT ministers reached agreement on a comprehensive framework for negotiations to guide the improvement of GATT disciplines relating to all subsidies and countervailing measures that affect international trade. In our view, the framework on subsidies and countervailing measures appears to allow for the negotiation of those issues of greatest interest to Ontario, such as better rules on the use of countervailing duty measures and the definition of actionable subsidies.

The ministers agreed in the area of natural-resource-based products that trade liberalization would include all processed and semiprocessed products. Increased access for these products could help Ontario ship exports from unprocessed to higher value added products.

In the area of dispute settlement, GATT ministers agreed to implement improvements to the current rules and procedures on a trial basis that would be in effect until the end of the round.

In negotiations on the functioning of the GATT system, or FOGS, as it is referred to, ministers agreed to a package of initiatives including surveillance of the trade policies of member countries, greater involvement of ministers in the GATT and closer co-operation with the World Bank and the International Monetary Fund.

Tentative agreement was also reached on trade and tropical products,

which is probably the one major positive that came out of the talks. Ministers accepted the offered list for tariff reductions on tropical products tabled by industrialized countries and some developing economies.

On services, ministers approved an extensive text outlining the scope of services negotiations for the remainder of the Uruguay round. It was agreed that negotiations should proceed along the lines of a series of principles such as national treatment, with a view to reaching agreement on sectoral coverages under a multilateral framework.

It is one of Ontario's and Canada's priorities in the Uruguay round to obtain greater market access for our service exports, including temporary access for business personnel on as wide a basis as possible. However, we would like to ensure that the application of the framework principles respect national laws and objectives and assure the integrity of regulatory systems that apply to services and effective consumer protection.

Should you wish to pursue discussion of these tentative agreements, my officials can provide you with further explanations of the status of all of the individual negotiating groups.

These substantial agreements make Ontario hopeful that progress will continue and contribute to the eventual success of the Uruguay round negotiations. We are under no illusions, however, that given the lack of success in Montreal, the ultimate agreement is made more difficult.

Ontario hopes that the results of the Montreal ministerial meeting will convince the GATT members that sufficient political will has to be generated to enable a mutually acceptable agreement to be obtained. There remains confidence that the overall schedule for the Uruguay round is still on track and that the round can be successfully completed by the end of 1990.

As you know, the Ontario government, along with the other Canadian provinces, has taken an active interest in the Uruguay round negotiations. Ontario was an observer at the Punta del Este ministerial meeting in Uruguay in September 1986 that launched the round. Since then my ministry has been monitoring the progress of negotiations and has maintained close contact with the multilateral trade negotiations office in Ottawa.

I have discussed with the federal Minister for International Trade, Mr. Crosbie, and my colleagues the views of Ontario in the areas under negotiation. Ontario will continue to keep the federal government informed of the province's interests and concerns in the course of federal-provincial consultations.

Ontario participates in regular meetings of the federal-provincial continuing committee on trade negotiations. As a result of interest expressed by the provinces, a subcommittee of this group, the working group on agriculture, has also been formed and Ontario officials, from a number of ministries, are actively involved.

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Extensive information exchange on multilateral trade negotiations is also made in other discussions and contacts with the federal government.

As was the case at the Punta del Este ministerial in 1986, provincial ministers responsible for international trade were invited as observers to

Montreal. My deputy minister, Mr. Gow, and I attended the meetings on behalf of Ontario, along with officials from my ministry, the Ministry of Agriculture and Food and the Ministry of Intergovernmental Affairs.

In Montreal, we had the opportunity to meet with the Canadian delegation on a regular basis and a number of other delegations, including the European Community, Japan, the United States, Australia and the ASEAN countries, as well as with officials of the GATT secretariat. Federal officials also provided the provinces with daily briefing sessions on progress during the negotiations.

The scope of federal-provincial consultation and information exchange has been much higher during the current Uruguay round compared with previous multilateral trade negotiations. It is our hope that these ongoing consultations will continue and intensify as negotiations proceed.

The Ontario government will continue to follow developments and negotiations closely. My ministry has prepared and is co-ordinating a broad-based interministerial work program to analyse the possible impact on Ontario of the issues under negotiation and of the agreements that are reached.

The Ontario government will intensify consultation with labour, the private sector and the goods and services sectors, including agriculture, to ensure that there is the widest possible input into the development of Ontario's position over the coming year.

In closing, I would like to state that the success of the Uruguay round of GATT negotiations is fundamental to the continued help and future growth of the world economy. It is unfortunate that the principal countries were not prepared to make the necessary compromises to bring about greater success in Montreal. The inability to achieve the expected objectives in Montreal was a setback, but it need not be serious so long as the members of the GATT are willing to continue to negotiate in a substantive way in Geneva next April.

Mr. Chairman: Thank you very much. I have questions, but I realize you have to be somewhere else right now.

Hon. Mr. Kwinter: Yes, but as I said, David Barrows and Fernando Traficante are here. They are people in my ministry who are probably as knowledgeable as anyone on these negotiations and they would be delighted to answer your questions for you.

Mr. Chairman: We know them both very well. That was very optimistic. We appreciate it very much. Thank you for being with us.

Hon. Mr. Kwinter: Thank you.

Mr. Chairman: Mr. Pelissero has a question that, I take it, either Mr. Barrows or Mr. Traficante can answer.

Mr. Pelissero: Well, a combination of maybe both. When the committee was in Europe, certainly the free trade agreement was discussed as we went to different quarters. In discussions with the European common market countries, they viewed to a certain degree the fact that it looked like we were going to get a trading arrangement with the United States as meaning that if you deal with the United States, then you would have dealt with Canada. Did any of that come out in some of your informal meetings with any of the delegations, the

sense that it was a package deal and if they can strike a deal with the United States, that means Canada automatically goes along?

Mr. Barrows: I would like to introduce my colleague Richard Caine with the Ministry of Agriculture and Food, who also attended the sessions and can speak to those areas.

I guess, Mr. Pelissero, that when one looks back on the history of these GATT negotiations, and there have been a number of rounds since the end of the Second World War, what seems to happen is that the Canadian government essentially does its negotiations with the US first in any event, and tries to get that sort of in order, then uses that as a basis for going out and conducting its discussions with the rest of the world. In some respects that appears to be what has happened through the FTA, although it is of course much more comprehensive.

My perception would be that the Canadians now feel much more positive about being formative actors in participating in the GATT process. The Canadian federal government is very active in the Cairns group on the agricultural side, and it has also brought forward position papers on services and dispute resolution in a number of areas.

I personally feel that the Canadian federal government is trying to take an active, positive role now that it feels it has established its trading relationship with the United States, primarily through the FTA. But as well there are a number of areas that really were not quite finalized through the FTA, and the GATT appears to offer us some opportunities to get at those things as well. Certainly, the whole subsidy countervail thing has not been acted on. The agricultural subsidies area has not been acted on. So I think there is a fairly active role to be played by the federal government.

Mr. Pelissero: I have two points in terms of the agricultural sector and the inability to reach some kind of agreement as to what is going to be done.

When we were over at the headquarters of the Organization for Economic Co-operation and Development, it was attempting to develop PSEs—producer subsidy equivalents. I and some of my colleagues—I know Mr. Villeneuve from the Conservatives as well as probably Mr. Wildman from the New Democratic Party—would have some disagreement as to what those PSEs would or would not include.

I have already suggested to the Minister of Agriculture and Food (Mr. Riddell) that we do some work to find out what they are basing them on, because if everybody is coming to the position of, "Okay, let's talk about a level playing field and let's try to get some standardization," I am not too happy with the standards they are attempting to establish.

That is number one. I guess it is more a request than anything, to your ministry as well as the Ministry of Agriculture and Food, that we dig behind the PSEs and see what implications they have for Ontario agriculture.

I do not take a great deal of solace in the fact that Clayton Yeutter has now been pegged as George Bush's Secretary of Agriculture.

Mr. Chairman: He has?

Mr. Pelissero: Yes, yesterday. And we should really watch out,

because he has made it very clear—and there was almost a verbal joust between him and John Crosbie over the Canadian Wheat Board and how we market our wheat. The whole thing is maybe unfolding as the United States would like to see it unfold, and I am just asking again that we be vigilant in making sure, when we are talking about agricultural subsidies, etc., that we in fact see what the effect will be back at the farmer level.

I know there are some concerns in terms of the agricultural processors, the food processors, etc. I read an article, "Harmonization of Technical Standards." What does that mean? Has there been any discussion within the GATT round of that, as an example. Maybe more for my information, who is leading the multilateral discussions for Canada, now that Reisman has stepped down, because I believe Reisman was supposed to be spearheading both the multilateral and the bilateral. With Reisman no longer there, who is our chief negotiator for Canada?

Mr. Chairman: You have a lot of questions there.

Mr. Pelissero: Yes, thank you. I will close with that.

Mr. Barrows: To go through them from the start: On the agricultural one, I think we share some of the same concerns that you do on the PSE and the aggregate measures that they are looking at, and what would be involved and what might not be involved in those.

At some of the early meetings that we attended—the provinces and the federal government—when the federal government started to lay out the kinds of things it was involved with, with the Cairns group, it became apparent that these things could have a very significant impact on all of Canadian agriculture, particularly Ontario agriculture. How supply management is dealt with in a PSE, whether that is a credit or a debit, and how you deal with supply management become very important in determining what the impact would be on Ontario.

One of the first things that we did was request that the federal government set up a working group on agriculture, just to deal with those issues. What that now has is representation from both trade and agricultural ministries, so that we are working currently with the Ministry of Agriculture and Food on a regular basis as we meet with the federal government.

It is an extremely difficult issue to get at analytically, and Richard could spend some time with you on that if you wish, but we have had some discussions with some of the Canadian academics at the University of Guelph to try to see if we could do some research ourselves to get at PSE and aggregate measures and what is in and what is out.

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We recognize, I think, that is a potentially very important issue. We at least want to be able to discuss these things analytically with the federal government on an equal level. Richard can talk to you about the standards in a second.

With respect to Mr. Reisman, Ambassador Reisman has, in fact, resigned. Mrs. Ostry was leading the delegation. The chief civil servant is Germain Denis, who I guess is at the assistant deputy minister level in the Department of External Affairs.

It appears that they are moving the trade negotiator's office into the Department of External Affairs. I think we now will have to wait to see whether Mr. Crosbie will remain the responsible minister and whether there will be changes at the ambassadorial level in terms of our relationship with those negotiations. Richard, do you want to answer?

Mr. Caine: On the technical regulations, in terms of the agricultural negotiations and the multilateral trade negotiations, the technical negotiation part is one of the less controversial.

The goal of minimizing the trade effects of the technical regulations on the health and sanitary requirements on agricultural products was set out in the Punta del Este declaration in September 1986. What came forward at the midterm review was a basic set of umbrella principles in which countries would be committing or ministers were asked to direct negotiations, where countries would aim at harmonizing regulations in these areas.

Another principle is one of adopting equivalency. The GATT would set up umbrella principles, under which the technical negotiations would occur, but GATT also realized that these issues are scientific and should be dealt with on a scientific basis. They want to develop linkages with the international bodies like the Codex Alimentarius Commission, in which international standards for food and animal products are established.

It is a very complicated process. There is progress being made there in international co-ordination, but it is a very complex issue, as this beef hormone issue between the European Community and United States is showing. It has got a lot of trade implications.

Mr. Pelissero: That was going to be kind of a supplementary out of that in terms of leading from talking about tariffs and harmonizing on a technical basis and then jumping into a nontariff-barrier issue, such as hormone usage in beef cattle and how the European common market is attempting to prohibit shipments in; they want hormone-free beef. Was there any discussion in Montreal of some of those aspects?

Mr. Caine: I guess the hormone issue was a dark cloud in Montreal in the sense that the bilateral issue could cause a collapse of the agricultural negotiations, that the US and the EC would focus on that particular issue and forget about the long-term issue of trade-distorting subsidies.

But in terms of the GATT negotiations, GATT is trying to establish these umbrella principles. They are leaving the resolution specifics like the beef hormone issue to the separate bodies and to the GATT dispute settlement. I think GATT is not setting the goal of being able to come to grips with the technical regulations. Those will be left to the scientific body.

Mr. Pelissero: Thank you.

Mr. Caine: I just have a comment on the PSE. One of the issues that ministers were presented with in Montreal which they did not agree on was to reduce subsidies through an aggregate measure like the PSE and the alternative to this then was making policy commitment. Then the PSE would just be a monitoring device. It is very complex. There is no actual agreement to use an aggregate measure as the basis to reducing subsidies. There is also this area of making policy commitments.

Mr. Chairman: Mr. McCague has a question.

Mr. McCague: I just missed the point that the minister made about the services agreement. Is it a draft agreement or was there agreement?

Mr. Traficante: Pretty briefly, services like 10 other of the negotiating areas were tentative agreements in the sense that you have the text in front of you and there are no square brackets; that is, the negotiating countries agreed on the language to put forward.

In terms of what is actually in the services component, it is really nothing more than setting out the framework or the basis upon which the negotiations will take place over the course of the next two years, and talks in terms of things such as transparency and progressive liberalization, national treatment, most-favoured-nation treatment, market access and increasing participation of developing countries.

I think the most interesting aspect of the services agreement is the extent to which it allows partial participation by developing countries, because during the course of the negotiations—especially the last six months or so—there was an increasing sense that the United States wanted the developing countries to buy into the full services agreement, whatever it might ultimately be, and to buy into the full rights and obligations that might entail.

What they have come up with is in fact a way for developing countries to take on rights and obligations, with respect to services, on an incremental basis. As time passes they will increase their obligations, so they do not have to buy into the whole thing at the beginning but can increasingly accept those obligations.

Mr. McCague: On national treatment, is Ontario's position stricter than Canada's?

Mr. Traficante: It is not clear. I would say essentially that the issue of national treatment is not so much whether one accepts national treatment but the extent to which your ability to regulate in a fashion which is appropriate is maintained.

It is not so much a matter of being required under a GATT—or under an FTA for that matter—to treat everyone in exactly the same way irrespective of nationality, as it is whether you will be able to maintain the integrity of your regulatory systems and the enforcement of those regulations.

We have been telling the federal government rather consistently that this is something that is important to us.

Mr. Morin-Strom: We have the draft of this meeting at the ministerial level. Was this actually agreed to at the end of the meeting, or was it not? I am under the impression there was no agreement that came out of that.

Mr. Traficante: The status of this is kind of ambiguous. This is essentially what seems to have happened: Because of the difficulty with agriculture, they decided that none of the tentative agreements would be accepted; everything would be on hold. The document that is in front of you contains a text of the tentative agreements and the text of those agreements where there was no tentative agreement.

For example, if you go to the agricultural one, which is—

Mr. Morin-Strom: This was the bureaucrats' preconceived idea as to what the agreement that should be passed in Montreal would be.

Mr. Traficante: Not necessarily, no; it incorporates two different things.

Mr. Morin-Strom: But this was written before they arrived in Montreal, or was it not?

Mr. Traficante: In seven of the areas, the negotiators had agreed on text before they reached Montreal. At Montreal, they reached agreement on four more of the texts. In other words, when they went to Montreal, in four additional areas there was language plus additional language in square brackets, and the ministers in Montreal decided which of the square-bracketed language would be acceptable. Then, in four areas there was no agreement; those were agriculture, safeguards, trade-related intellectual property and textiles and clothing.

The texts are provided for you there, and if you look at those, you find there are square brackets around substantive portions of the text. The areas of the text that do not have square brackets were agreed to. The areas in square brackets are up for discussion.

That discussion in those four areas that I have indicated will take place between now and April, primarily dealing with trying to reach a consensus on agriculture. Arthur Dunkel, the director general of the GATT, will be speaking with the various participants and will try to achieve a language which will be acceptable to them all.

Essentially, what has happened is that there was no final communiqué coming out of Montreal. They have extended the Montreal meeting until April. In April they will have a session with officials who will hopefully come up with a consensus on those four areas that were not agreed to, and what comes out of Geneva in April will be the final communiqué for the Montreal meeting.

In effect, the Montreal meeting is going to be two-staged: one session in Montreal and the other session in April in Geneva.

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Mr. Morin-Strom: Is the April one at the ministerial level or is it at the ambassadorial level?

Mr. Traficante: It is at the officials' level.

Mr. Barrows: As the minister indicated in his statement, part of the problem is one of expectations. These are negotiations which are scheduled to end in 1990, and on some of the contentious issues it just did not seem to be appropriate for the major players to make a commitment now.

It seems to be the history of these negotiations, as we saw with the free trade discussions, that you really get down to the last five minutes when the bell ultimately does ring and that is when the final trade-offs and decisions are made. On some of these more contentious issues, it just did not appear they would be able to do that.

Because of the ministerial involvement and because of the level of expectations, there seemed to be the hope that more would be accomplished, but

in fact they did provide themselves with some frameworks and some negotiating capability to go on; but they will eventually have to get at the agricultural one if this thing is going to break one way or the other and finally come to pass.

Mr. Morin-Strom: One other question: I wonder about how broad-based these discussions were in terms of participation by all the member states in the GATT. One of the serious concerns we had heard in our visits to Geneva was the fact that there was notable absence of any participation at the officials' level of a number of smaller underdeveloped countries, most particularly from Africa, which was almost totally out of the picture in terms of the Geneva talks leading into this. I wonder how active was the participation of countries from Africa, for example, or some of the smaller countries from Latin America and Asia.

Mr. Barrows: Not actually having participated directly in the meetings so that I can give you a firm answer, it does appear that the developing countries had a fairly significant role to play. For example, it appears that Argentina and some of the developing countries, in the absence of some firm movement on agriculture, were not prepared to see this document become an official communiqué. They actually used their power to force a continuation of this dialogue. As well, as the minister indicated in his statement, India really held up the trade-related intellectual property parts of the negotiations.

On the services one, the notion that the developing countries have brought forward is a quite fascinating one: "Well, if you want to trade us your high-technology services, we might wish to have the right to export labour-intensive low-technology services to you." That has very serious implications for the developed countries as well.

I guess some of the developing countries have played a very active role in these rounds and have been able to input significantly.

With respect to Africa, I personally am not able to respond.

Mr. Traficante: The only comment I can make is that one of the numbers I heard from the Canadian delegation was that, of the 95 contracted parties in the GATT, about 80 to 85 of the countries were represented by ministers. I presume that would include a substantial number of the African countries which were represented by ministers.

Mr. Morin-Strom: This was a serious concern there, particularly Africa. While there was appreciation that a number of the developing countries, particularly the large South American countries, had major delegations at Geneva and were quite actively involved, and the developing Asian countries were quite active participants, the one major area that seemed to have a total lack of delegations in Geneva was Africa.

Mr. Barrows: Mr. Chairman, we will contact our colleagues at the federal government and try to get some determination of sizes of delegations and a qualitative sense of involvement and, if you wish, get back to Mr. Morin-Strom directly on the issue.

Mr. Chairman: One of the problems in Geneva was that smaller countries just could not afford the participants in all the subcommittees that were active. I think there was also a feeling among a lot of developing countries that with the movement towards free trade agreements that both the

United States and the European community were involved in, they would be initially left out and then perhaps have their backs against the wall in that they would have very little bargaining power compared to what Canada had.

I think a lot of us have a whole slew of further questions. Unfortunately, time is ticking away. You did indicate that our government is going to be involved in a number of committees that will be active between now and April. It would probably be appropriate if you could report to us around April as to how things are going. I know there was a feeling among the ambassadors when we were there to the effect that it needed the politicians to bring everything together, and now the politicians have said that the ambassadors can do it in April. Let's hope they can.

Mr. Mackenzie: I just wondered, do we have a copy of the statement the minister made?

Interjection.

Mr. Chairman: It will be in Hansard, but I take it there are not copies available?

Mr. Barrows: No, but I think we could make some available subsequently.

Mr. Chairman: Yes. Very quickly, Mr. Pelissero.

Mr. Pelissero: Just a question. I have heard the minister make the statement that under the GATT, previous to the 1990 round—as a result of both the GATT and some bilateral trading arrangements we have with the United States—approximately 80 per cent of our goods move into the United States tariff-free. I thought I heard him mention in the House the other day that at the end of the 1990 round, that figure would go as high as 90 per cent. Is that accurate?

Mr. McCague: That is a hell of a question.

Mr. Barrows: That 90 per cent will go to the United States tariff-free?

Mr. Pelissero: Yes. The point I am trying to make is that currently, before free trade, about 80 per cent of our goods moving into the United States from Ontario are free trade or tariff-free now, and that figure was going to be increased because of the multilateral trading discussions that are going on.

I thought I heard the minister saying, and I may attribute this wrongly to him, that the figure was going to go as high as possibly 90 per cent at the end of the 1990 round of GATT. I guess the point I am making is that multilaterally we were going to end up with "as much as we got out of free trade without having to sacrifice what we sacrificed."

I am just wondering: If that figure is incorrect, could you provide us with a figure?

Mr. Barrows: Yes. I would think I would have to go back and look at it. I guess in terms of the statement the minister made, if we are looking at tariff cuts of as much as 33 per cent under this round, and depending upon when they were phased in and how that would relate to a Canada-US tariff

structure, that may be correct. I think I just have to go back and look at the numbers to check.

Mr. Pelissero: All I am looking for is basically what percentage of our goods moving into the United States now are tariff-free and what figure that will be if things move as they should under the multilateral trade negotiations.

Mr. Chairman: Thank you very much, gentlemen. We appreciate your assistance to us.

ORGANIZATION

Mr. Chairman: We have one matter that we have placed back on the table and that was a motion by Mr. McCague. I believe we were not sure of the wording of the motion, to the effect that we adopt everything concerning the subcommittee meeting. I think the issue was whether or not, if we do not need all of the time--

Mr. McCague: My motion was that you seek the necessary approvals to accommodate the schedule as set out before us here today. I guess we could argue about it for a long time, but what I would suggest is that if we have any party comments that we want to make, we do that through our House leaders and let them argue it out in their forum.

Mr. Chairman: All right. Is there any discussion? Ready to vote?

Motion agreed to.

Mr. Chairman: Merry Christmas.

The committee adjourned at 12 noon.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ORGANIZATION
ECONOMIC OUTLOOK AND FISCAL REVIEW

THURSDAY, JANUARY 5, 1989

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:
Nixon, Hon. Robert F., Deputy Premier and Treasurer of Ontario and Minister of Ecomomics (Brant-Haldimand L)
Ploeger, Henk M., Acting Assistant Deputy Minister, Office of Economic Policy
Hoicka, John, Senior Policy Adviser, Primary Sector and Manufacturing
Dorey, Steve, Economist, Macroeconomic Analysis

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 5, 1989

The committee met at 10:04 a.m. in room 151.

ORGANIZATION

Mr. Chairman: Treasurer, before we start, if there is no objection, the chair and the clerk will go ahead and schedule witnesses for Bill 122 and clause-by-clause of Bill 122, starting on January 10. While there is a deadline of tomorrow, I have received word of only two witnesses who wish to appear on that bill. Conceivably, it could be wrapped up with a little diligent work on January 10 and we could move to prebudget witnesses--I think we have something like 28 of those who wish to appear--on January 11.

Mr. Pelissero: Roll this again. We are suggesting January 10 after routine proceedings, January 11 after routine proceedings and then January 12 would be our normal meeting?

Mr. Chairman: Yes. All right?

Mr. Pelissero: Is it the same for the following week, January 17, 18 and 19?

Mr. Chairman: Yes. We continue the Thursday morning hearings.

The other matter that I should bring to members' attention is that a group of Italian parliamentarians, 13 in number, wishes to meet with as many members of the committee as possible on Monday next, January 9, at a time yet to be set.

Clerk of the Committee: It is 10 a.m.

Mr. Chairman: That is Monday morning. If any members of the committee wish to be involved in that, please see the clerk.

Mr. McCague: Are you going to out send a notice?

Mr. Chairman: Yes.

ECONOMIC OUTLOOK AND FISCAL REVIEW

Mr. Chairman: We have with us this morning the Treasurer of Ontario, Robert Fletcher Nixon, who has kindly agreed to appear and discuss with us the Economic Outlook and Fiscal Review. Mr. Nixon, we have had some stabs at this document prior to your publishing it, but we appreciate your coming this morning to spend some time going over it with us and assist us in digesting it. Perhaps you would carry on and say whatever it is you wish to say and then entertain some questions.

Hon. R. F. Nixon: This may be the third time that I have attended the committee in support of the Economic Outlook and Fiscal Review. The concept of placing before the Legislature, and therefore before interested segments of the business and economic community, a report of this nature is

now, I think, three years old. The thought that all members of the Legislature should be able to share in the economic projections and the fiscal review that go into the preparation of a budget is not a new idea, but I think the idea of having such a report that brings it together is a new idea. I am very pleased that it is working as well as it is.

I want to begin by thanking the staff of the office of economic policy for doing such a good piece of work in developing this. It is factual as far as the fiscal review is concerned, of course, and the projections of the economy in the ensuing year are as reliable, in my view, as you can find anywhere.

There may be people in the room who would compare the projections in the past with what actually happened as the year unfolded. None of these things is right on, but they give us the best-informed view of the future, upon which we base our requirements for funding and our projections for the rate of growth of various programs, depending on the health and state of the economy.

This committee has as one of its main functions a review of the economy. Then they, as members of the Legislature from all political parties, give their views as to the role the Treasury can play and what the leading components of a budget might be for the ensuing year. We have not got down to the formal presentation of next year's budget other than to make the assignments of transfer payments that were announced in the Legislature three weeks ago. This amounts to a substantial proportion of the overall expenditure policy, well over 40 per cent really, and it is certainly an important aspect.

The budget, which normally follows the federal budget—we would be planning it for April or early May—sets out what we consider to be the economic priorities for the coming year or the year in which the budget is presented. On that basis, we certainly value and require the recommendations of this committee.

You may remember that last year the recommendations for additional expenditure that came to the Treasury from the committee and as well from other interested groups across the province representing the widest possible variety of responsibility would have amounted to an increase in expenditure of $10 billion in one budget. It would have required an overall increase in our tax base of about 25 per cent to meet that.

I point that out not in any way by means of criticism of the people in the province who have come forward and indicated a requirement for additional expenditure, but simply to make the point that almost every area of endeavour in the province could be more fully funded and more adequately funded. We have a piece of economic cloth or tax room that we have to divide among the various provincial responsibilities. It is my recommendation, of course, which is presented in the budget, and the best information and advice I can get from a wide variety of sources is anxiously sought by myself and the people in Treasury.

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This committee is really the formal way in which members of the Legislature should be having an input prior to the budget. After the budget is presented, then all members in the debate have an opportunity to say what might have been in there or to indicate inadequacies in the budget or changes that might be made.

In connection with the report itself—and I indicated my appreciation

for the staff in the office of economic policy for the work that went into it—I should mention Dr. Bryne Purchase, who was the assistant deputy minister in the office of economic policy until January 1, 1989. You are probably aware that he has gone to the private sector, and certainly we will miss him in the Treasury. His service there was lengthy and highly regarded. It was principally his leadership which led to this report.

I should say that Henk Ploeger, who is sitting to my right, is acting deputy minister in that capacity, as assistant deputy minister in economic policy. In over three and a half years in Treasury, I have come to realize how valued his experience and opinions are and I am very glad that he will be here to assist me in responding to the questions of the members of the committee.

I am sure you are aware that the report projects continuing substantial economic growth in Ontario. I believe this is the seventh year of economic growth. The one difference that obviously is of great importance is that the rate of growth is going to fall, we project, to just under three per cent. This is normally considered by economists—and I am not one, as you are aware—as healthy, sustainable growth.

It should not be construed in any way as anything that should give rise to apprehension as to the state of the economy. As a matter of fact, there are those, perhaps somewhat more conservative than myself, who have been apprehensive at the very high rate of economic growth that we have experienced over the last few years. Last year, at about 4.5 per cent or 4.6 per cent, it was much higher than we had projected, for reasons that you might want to discuss in the committee.

The results of that have been a reduction in the unemployment rate to five per cent, job creation which has been substantial, housing starts which have been at an all-time record, and of course certain economic pressures which we feel in the Toronto-centred area and other rapidly growing areas such as Guelph, Kitchener, Ottawa-Carleton, the Hamilton area and the Windsor area: growth pressures that are very real and tend to limit the rate of expansion to some extent.

So the reports have been uniformly good and our projections for the future year are positive. I simply state again that the rate of economic growth is somewhat less, we project, than we have experienced this year and this is by no means disastrous. As Treasurer and Minister of Economics, I see it, since it is sustainable growth, as healthy and something upon which we can build in an effective and constructive way.

There really is not anything much more specific that I want to say by way of introduction. I know the members of the committee will be interested in pursuing their own areas of special interest and expertise. I say again that Henk Ploeger on my right is the assistant deputy minister responsible for the information that would be available to you, and we are assisted by a group of people who are available, whose abilities impress me very much and who are great people to work with. So, Mr. Chairman and members of the committee, we are at your disposal.

Mr. Chairman: Thank you. I might say, on behalf of the committee, that the committee has got to know Dr. Purchase over the last two or three years and we found him very valuable and helpful. We wish him well in his future and we welcome Mr. Ploeger and look forward to working with him in the future.

Hon. R. F. Nixon: By the way, not that I am Dr. Purchase's agent in

any way, but since he is in the private sector and has had extensive economic experience in business previously and in government, he is out there to advise business and government and we should not forget that.

Mr. Chairman: And perhaps legislative committees, if we want something independent now.

Mr. Kozyra: I would like to focus on the exchange rate. I realize it is much more a federal issue than provincial, but there is a specific concern in northern Ontario that relates to it.

First, generally, when we spent over a year looking at free trade, one of the things that became very clear was that the parameters on which much of the negotiation was based and estimates made, projections made, was between 70 and 75 cents. Now it is 80 to 83 cents, and that has serious implications.

One of the serious fallouts of that for northern Ontario has been the effects on the lumber and sawmill industry in terms of the export tax. The effect now, because of the exchange rate increasing, is that the 15 per cent tax on softwood lumber has the effect of approximately 30 per cent now. We really feel that the entire lumber and sawmill industry in the north is in jeopardy.

I am just wondering what the province is able to do and is doing to offset some of these effects of a fluctuating exchange rate that in this case, if it stays at this level or continues to go up, has disastrous effects.

Hon. R. F. Nixon: I believe the outlook indicates an exchange rate of about 80 to 82 cents during the coming year, which people in the resource industry certainly tell us is not good news for them. They do business much better at the 75-cent level and, as you point out, there is not much we in the province can do about it.

I agree with your observation that the sawmill industry particularly is facing a very difficult situation. There are indications from your area of northwestern Ontario and elsewhere that this is resulting in layoffs and closures in a time of economic development and utilization of the products of the sawmill industry that should mean that they are enjoying prosperity, not the opposite.

I notice that one of the first responses by the government of Canada, now that we are in the free trade era where the free trade agreement has been approved by both governments in the United States and Canada, one of the first controversies, has to do with wood import-export—I think they are calling it the knothole controversy or something like that—because of the exchange of plywood products.

The 15 per cent tax is a federal tax that is remitted to us. Our program has been to allocate that money, not to earmark it, but to allocate similar amounts of money for northern development. I think you are aware that this year we established a northern Ontario heritage fund into which we guarantee to deposit $30 million every year. It is controlled by the Northern Ontario Heritage Fund Board under the minister, not by the Treasurer of Ontario, although the reports come and are approved by the Provincial Auditor, of course. That funding, once it is deposited in this fund, does not come out of the consolidated revenue fund. Primarily, it is theirs for northern development.

I suggest that one of the things all of us who are interested in that

would do would be to see that $30 million is applied, in great measure, to seeing that the industry gets whatever assistance is appropriate under those circumstances. There are a variety of other programs we have that, I would suggest, are also of support, but essentially, when the market is dislocated by what you describe as tantamount to a 30 per cent tax, it is going to be very difficult for them.

There might be something Mr. Ploeger would like to add to that.

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Mr. Ploeger: There is no doubt that the lumber industry is having a more difficult time with the higher exchange rate. As the Treasurer explained, the 15 per cent did not help either. On the other hand, the pulp and paper industry is bursting at the seams. At the moment, they are experiencing an extremely profitable period. Their production is running at virtually 100 per cent capacity. Basically, there are two wings to the wood industry, one having a more difficult time than the other. The pulp and paper industry still has a very strong outlook for the near-term future too.

Mr. Kozyra: At a recent meeting with Ministry of Natural Resources officials from the provincial government and officials of the federal government concerned with this particular sawmill and lumber situation in the north, it was pointed out that the rationale the United States used to force Canada into this export tax is the same kind of rationale that could be applied to the pulp and paper industry, in a much bigger way.

I am just wondering if this has been foreseen by other areas. The implications, of course, would be much, much more serious. The fact they are enjoying this kind of bumper year--the last two years--may very well make them targets for this. If we think what is happening now in the north is devastating, this would wipe out the entire segment . I am just wondering if you foresee anything like that.

Mr. Ploeger: I am not sure of any crisis coming out of the United States on that front. Maybe John Hoicka, senior policy adviser, primary sector and manufacturing branch, may be able to explain a bit more on that front; that is, what is going on in the United States.

Mr. Hoicka: Certainly, there is always a possibility that some such action could take place in pulp and paper. Probably it is less likely now because British Columbia, and to a lesser extent Quebec, both raised their stumpage rates very significantly, in large part in response to the issue with lumber. It would be more difficult to carry it through for pulp and paper now, since BC is a major supplier.

The second issue is that Canada has not markedly increased its share of the market in the US. The reason for the success has been more that the entire market has improved. In the lumber case, it was in good part a situation of Canada increasing its market share and people in the US being quite concerned about losing market share that precipitated the kind of concern they had down there.

Regarding the other concern you raised about lumber, it is important to take into account fewer housing starts and a slower housing market, not just here but also in the US. In particular, with waferboard, it is much more a market demand kind of a problem than related to the stumpage and so forth. It is not just government actions. It is a question of market demand that is creating problems as well.

Hon. R. F. Nixon: If I may, there is another aspect to this that is going to have an effect on the industry. Because of the demand, the price and the buoyancy of the pulp and paper market, there has been substantial commitment to expansion, to some degree here in Ontario, but also in other jurisdictions.

Alberta has announced a couple of mills, one of which is considered to be the largest in the world. These are firm plans. One of the interesting aspects is that a lot of the machinery that will go into those mills will be manufactured here in Ontario. Some of the shorter-term advantages will accrue to this jurisdiction as well.

With this capacity expanding so rapidly, what are businesses to do when they see a large demand, their mills are running at capacity and they have lots of capital around, or at least availability of capital, to work with? They expand, knowing full well that in the past when this happened, about the time your productivity comes on stream the market tends to change. You are sitting there with a lot of shiny new machines and nobody wants your product. Then the intensity of the exchange at a committee meeting like this would be even sharper, if possible, than it is now.

We are looking at real problems as the business, in its inherent cyclical nature, gets into that downswing just after the capital commitment has been made. I am not sure whether the mind of mankind can in fact straighten that out. We have not been able to do it in the past. We should be doing our best to do it now.

Mr. Kozyra: Thank you.

Mr. Chairman: Members of the committee would be interested in looking at pages 26, 27 and 28 of the review on exchange rates, which includes three charts comparing hourly production and workers' wages in various countries and in various states in the United States with Ontario, with various exchange rates. Also, it is interesting to note in the 1988 statement in this review that merchandise exports to the United States increased 6.8 per cent last year, and to the rest of the world 22.6 per cent, largely for that reason.

Mr. Mackenzie: I have two or three questions, but just to continue with the exchange rate for a moment, I think the buoyancy of our economy has been one of the reasons we have not had some of the dire predictions this committee has heard over the last couple of years about an increase in the value of the Canadian dollar against the American dollar. It is somewhere between 84 and 85 cents, I think, as of today. Have you done any prediction or any studies as to how much more of an increase we can stand before we do begin to see some real effects?

Hon. R. F. Nixon: There will be people here who can give you a more professional answer. My own feeling, as Treasurer, is that a good deal of the development of our resource industry, which benefits from a low exchange rate, took place when our dollars were very nearly at par. Mr. Mackenzie, I do not know whether it is in our time, but certainly I remember when the Canadian dollar was at $1.05, which must have been difficult for everybody except some of the Progressive Conservative members who go to Florida—no, no.

The development actually took place when the two dollars were very close to parity. The level of 80 to 82 cents seems to me to be an area where we should be able to compete. You will notice that the tables the chairman drew

our attention to indicate we are in a relatively competitive position in almost every respect—labour costs and so on.

I, for one, am not a person who feels the development of our resources cannot go forward in a situation other than the 75-cent dollar.

Mr. Mackenzie: You do not think the slowing down of the economy to some extent, which even you are predicting here, is going to exacerbate the problem if the dollar stays up somewhere around 84 cents.

Hon. R. F. Nixon: I would prefer it in the 80- to 82-cent range. I would ask Mr. Ploeger or whoever he would select from his staff to make a comment on it. We do not expect it to go back down into those lower depths, down to 70 cents, where it was in the last two years. We think our resource industry can compete in this range. Now you are saying it is 84 to 85 cents now. I do not know what it is today; I thought it was about 83 cents to 84 cents.

1030

Mr. Ploeger: It is 84 cents.

Hon. R. F. Nixon: Yes. You may want somebody else to reply.

Mr. Ploeger: You were wondering about how much more of an exchange rate appreciation we could tolerate and stand. In fact, the stronger our dollar is, the more pressure comes off our interest rate and monetary policy. In the face of a fairly strong dollar, we can foresee the Bank of Canada easing up on its monetary policy and freeing up the differential between the United States and Canadian interest rates, which would be of great benefit to the economy.

Mr. Mackenzie: Forgive me. I do not know whether I see a slight difference between you and the Treasurer or not, but are you saying in effect that it does not really matter that we stay in the 82-cent range?

Hon. R. F. Nixon: I think he was pointing out that there is an up side to the higher dollar, that the Bank of Canada might very well see fit to reduce its inflationary protection stance with higher interest rates, as I understood his remark.

Mr. Mackenzie: I guess connected with that is also the question of the northern economy and whether or not you see the $30 million a year—certainly we have raised, as you are well aware, what we feel is the inadequacy of $30 million a year in terms of development in the north where, with one-industry towns, you get hit when there is a slowdown or a shutdown. Have you given any consideration to increasing that $30 million a year in development for northern Ontario?

Hon. R. F. Nixon: No. As well as you, I use the word "inadequacy" in describing these things. In my opening remarks, I said that probably the inadequacies of our fundings in almost every area of provincial endeavour, whether it is health care, highway development, environmental programs, salaries for MPPs—whatever it is, there are people who can see clear inadequacies.

The indications from all of these groups last year, taken together, would have added $10 billion to our expenditure. Really, we are talking about

priorities where, if we were going to be more adequate in funding northern development, we would have to be less adequate somewhere else. Obviously, since the $30 million comes from government policy, we think that is appropriate.

We should not give the impression—you are aware of this as well and did not give the impression—that the $30 million is the only area where the funding of northern development and northern infrastructure takes place. In every ministry, we have a wide variety of programs that deal with the north. But these are dollars set aside under the control of northerners for northern development. We think the concept is a good one and we think the $30 million is not an inconsequential amount.

Mr. Mackenzie: I notice your projection is 100,000 new jobs for the coming year.

Hon. R. F. Nixon: Right.

Mr. Mackenzie: What have you done in terms of possible job losses, and specifically in terms of categories of workers, if that should come about as a result of either the slowdown in the economy or the free trade deal we have entered into?

I can give some substance to it. I guess I will use my favourite plant again, the Consolidated Bathurst plant in Hamilton. One of the things that has concerned me is that a substantial number of workers, who were quite old when the plant shut down, never did get relocated. They are now retiring and therefore going off the list, but retiring with no employment for their last five or six years in terms of their livelihood.

There seem to be some problems with specific job classes, older workers being one of them, and we seem to have an inability so far to come up with the retraining or skills upgrading programs, or they cannot access them because they will use their unemployment insurance, whatever the case may be. Have we taken a look at what is down the road over the next year or two in terms of jobs, particularly in specific classes? What are we doing or planning in terms of upgrading programs or retraining programs?

We seem to be having some trouble with the feds in this field, but quite frankly, I have not seen the offset here provincially either and I understand that if we do, there is a cost to it.

Hon. R. F. Nixon: It is a very big area you have raised and we can pursue it as far as you want. There were two or three things in your comment that are certainly important as far as I am concerned.

You indicated that some of these people have had to use up their unemployment insurance capability and then just move into retirement. In the past, the federal government has assumed 100 per cent of the responsibility for this sort of labour dislocation. They have had quite extensive programs for senior workers who would find themselves unemployed or in a dislocated situation.

The federal government, in an effort, from my point of view, to offload at least the cost of that responsibility, has said that in the future it wants that shared 50-50 with the province, and because of negotiations, I think, with some provinces, they have come up with a signed agreement of 70-30 or something like that.

I think the Minister of Labour (Mr. Sorbara) and Mr. Wrye, who was Minister of Labour before, have been discussing this with the government of Canada, naturally trying to maintain what we consider to be the status quo and the responsibility under these circumstances, which sort of flowed out of unemployment insurance, that it be a federal program, that our community colleges and our Skills Development budget would be brought into play to either fill in the gaps or reinforce this.

For us to take it on as a continuing, permanent responsibility is something we are not eager to do, since the feds have been doing it. Since they have said, "Well, we're not going to do this any more," these discussions continue.

I think you remember there was a provincial program, and my memory is not very good on this, that amounted to sort of a $5,000 credit, I believe, for each senior worker who was dislocated to assist him or her individually in his or her retraining and in his or her efforts to get other work. I cannot tell you formally how that is working or what the commitment has been or how good it has been. As Treasurer, I would prefer this to be kept as an ancillary responsibility relating to unemployment insurance.

This leads, of course, to the other area that has to concern all of us, and that is the results of any dislocation in the employment in the province which might come about because of the free trade agreement that is now the law of the country. There have been projections from the Ministry of Industry, Trade and Technology that would say the effects of free trade in Ontario are going to give rise to dislocation, and it is our feeling that since this is a federal initiative, the government of Canada should have programs and allocate money to assist with this, if not to compensate for it completely.

The federal people have established a special committee, chaired by the former chairman of Bell Canada, de Grandpré, who I think was reporting to the Senate committee just in the Christmas week. I did not get the feeling, frankly, from reading reports of his report that his committee was moving forward to grasp that problem in a significant and positive way. I frankly had just a feeling that the committee was designed to sort of talk about it and think about it, hoping the problem would not materialize.

Mr. Mackenzie: The hard reality, and it is why I think the province is going to have to face it, is that even if workers are able to access a retraining program, they may need upgrading, which is what we are finding with an awful lot of the older workers.

We found it in the Firestone case, which was one of the more successful experiments in Hamilton. We certainly are finding it as we check back on the workers at Consolidated Bathurst, and I suspect we will find it if, unfortunately, we should lose the Canron plant, which I am very concerned about. That is another 185 older workers we may be facing in the next few weeks.

These are just examples of it, and they cannot qualify for the upgrading because they will lose their unemployment insurance and they do not have the money then to carry them over. So even where they could get into a program, and there are not enough retraining programs, they are disqualified by their inability to pay the bills as they go along. This seems to affect some of the older workers particularly. It affects some of the younger workers as well.

It is fine to say the feds are not living up to their responsibility. I

am inclined to agree with you, but we have a direct responsibility in the province as well and these workers just are not sharing in the benefits of the booming economy.

Hon. R. F. Nixon: I do not disagree with you on that.

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Mr. Mackenzie: As part of that same area, what, if anything, have you done or are you thinking about in terms of this coming budget, in terms of the whole question of income redistribution?

I have not seen figures for the last year, but I suspect we still have a situation where the rich are getting richer and the poor are getting poorer in this province. Certainly some of the welfare problems that we are facing indicate that there is a considerable lack of income in terms of any poverty levels that you want to use. It is something that nobody has tackled over the last few years in any way that has changed the basic figures.

Hon. R. F. Nixon: I do not want to be misconstrued when I say that I would hope that this meeting would be dealing with something a little more specific rather than broad, sweeping policies like income redistribution and "Why haven't you people done more for poor people?"

Mr. Mackenzie: I heard what you were talking about.

Hon. R. F. Nixon: You and I have gone and run the changes on this and we will continue to do so, I trust. Just as you can say, "Why haven't you done more to help poor people?" or something like that and "The rich are getting richer," I can give you the litany of all of the remarkably capable and efficient things we have done to improve that situation. I am not sure that either of us would come out of the exchange with our views substantially changed.

Mr. Mackenzie: No, but you are in preparation of a budget. Will it in any way take a look at any further improvement?

Hon. R. F. Nixon: I think you are aware that every budget I have brought forward has increased the number of people who are exempt from paying provincial tax at the lower end of the income scale. I would be the last to say I am satisfied with that, but at the time when the government of Canada was removing its special funds and special program to exempt people at the lower end of the income scale, we were expanding ours. It really meant that our efforts were being cancelled by the other attitude in Ottawa, to give credit to the policies of the government of Canada. They have now reversed that and they have reintroduced their low-income tax assistance program.

I am the Treasurer, so my tendency would be to use the tax base to provide that assistance wherever possible, and I have done that each budget. You say, "What are you planning?" If I were consistent, I would expect that I would be thinking of improving that even more. It is gradual; from your point of view, far too gradual.

Mr. Mackenzie: Just two very short questions, and I will be finished for the moment. I guess the question everybody is asking out there at the moment too is, what is your current thinking? Has there been any change in it or have you decided how you are going to go in terms of, I think it is fair to say, the widespread concern over the national sales tax approach of the federal government? Where is Ontario going to go?

Hon. R. F. Nixon: I can assure you that the matter is not decided. I thought there was a good report in the press yesterday, which said that the committee of working officials from all the treasuries across Canada meeting with the federal officials had had one meeting since the election and had continued with their review. I think one of these officials, who was unnamed, said that they expected to have proposals to put to the politicians——

Mr. Chairman: By the end of next month.

Hon. R. F. Nixon: ——by the end of next month, something like that, and that is our expectation.

We have an assistant deputy minister who deals with that, not the sales tax, but with that area exclusively; that is, tax reform. He is a very knowledgeable and capable person and heads up our part of that working group. He reports to me after the meetings.

They are dealing with specific aspects where, if there were a national sales tax, what the effect on various aspects of our economy would be, and if we were to participate, either fully or in part, what difficulties we would foresee. But there is no proposal that is before the government, or certainly before the Treasurer, other than the statement made by Mr. Wilson, the Minister of Finance, that phase 2 of his tax reform will be a change from the present manufacturer's sales tax at 12 per cent to more general, business transfer tax, at a lower rate——I think he has said between eight per cent and 10 per cent——which he has said would be revenue neutral.

He has made it quite clear that the neutrality of the revenue is not just in the tax itself but over the whole range of federal taxes. If he goes ahead with the new federal sales tax, it is part of his plan to have rebates and financial assistance to the lower end of the income scale so the impact of that tax will be mitigated at that level.

Mr. Mackenzie: But the concern, though, is that some of us at least——once again, this may be the result of some of our political differences——do not see the measures taken to mitigate the problem at the lower income level as ever being adequate to what it costs when you establish some of these new taxes. Forgive me for being a little personal on this, but I remember your conversation with this committee better than a year ago when we were talking about sales tax, when I came away with the clear feeling that you were going to increase the sales tax across the board, which you did in the last budget, simply because, as I think I said, I could almost see the dollar signs in your eyes when you told us how much money there was in a one per cent increase in the sales tax.

I got the same impression at our last session with you, when we were talking about the federal government's approach in terms of the national sales tax approach. I think you made the comment that while you had some difficulty with it philosophically, your concern probably would be whether Ontario would get hurt in the whole deal——forgive me again for doing my own interpreting of your remarks——and that while you might not like it, Ontario would probably go along with it and make sure we had no problems. I guess that is specifically what I am asking.

Hon. R. F. Nixon: If you mean are we going to go along with it, that question cannot be answered, because there is not an answer at this time. I think your interpretation of my attitude is not unfair. I believe the regressivity of this sales tax can be moderated and mitigated substantially by

using tax credits, which have really been used quite well in this province. Our predecessors in government inaugurated that process and we are using it as well. It is designed to give special tax relief and assistance to seniors, people at the low end of the scale and people engaged in agriculture in a wide variety of ways.

So there is a certain progressivity in the sales tax, in that while I would drive a Chevrolet, you might drive an Audi—something like that—and you would pay more tax, because the car cost more. There is a certain progressivity there, particularly if there is a way to—

Mr. Mackenzie: Do you not have a car and a driver?

Hon. R. F. Nixon: For the time being.

It has been clear in the federal initiative that there would be sales tax credits to provide assistance at the low end of the scale. My views on the regressivity of sales tax have moderated with modern tax and fiscal practice.

Mr. Mackenzie: My final question is a short one. Others may disagree with me, but I do not think this committee really had much effect on any of your plans in the last budget. I cannot honestly say I expected to, to be very frank, but how far along are you in the budget preparation and what value does this committee have, other than serving as a sounding board or allowing some groups to come before it, in terms of your planning and budget?

Hon. R. F. Nixon: If you want to make recommendations on improving revenue, I would be extremely interested in that. I also want to defend myself against your feeling that the budget did not reflect the report of the committee. I may have been a little transparent in this, but in the actual script of the budget, if you ever read it—I know you never heard it—I believe there are two or three references to this committee, where I put in "as the committee recommended, we are" doing something. As I say, it might be a little transparent, but the idea that the committee is not a useful adjunct as far as I am concerned is not correct.

But the committee has its own independent role to play, not just in giving budget advice but in doing all the things it does. In many respects, the committee was a budgetary initiative.

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Mr. Mackenzie: Why do you say it was revenue-raising, then? Would you look at this committee if it made specific recommendations in terms of priorities or increases even?

Hon. R. F. Nixon: If the committee is going to recommend $10 billion more of expenditure I will read it with interest, but you are not going to see much of that reflected. The problem I have is not finding ways of spending money, because that is not my job. My colleagues in the ministry responding to the perceived needs in the community, often reflecting urgings from all political parties and individual members, have lots of plans to spend money. My main job, frankly, is to raise it and then allocate it in a way which meets with sufficient approval from my colleagues so that I get a chance to do it again.

Mr. Mackenzie: Taking the lump sum of $10 billion I can understand that clearly; but "priorities" does also mean that you may very well have a

specific area that you feel is of importance in the future and that we are not dealing with properly.

Hon. R. F. Nixon: That is right, but as I recall, the committee—and this is probably unfair; but in any group of politicians, if you have a discussion—will say, "Our priorities are health, education, the environment, northern development, more roads." It turns out that everything is a priority. If there were something that is not important we would be delighted to wind it down, but there just are not many of those things around.

Mr. Chairman: We have the same problem when we are dealing with witnesses.

Hon. R. F. Nixon: We will score one for you on that.

Mr. Chairman: All right.

Mr. McCague: I am sure the Treasurer, having given me an opening, will be happy to know that I am happy that he was able, in spite of the exchange rate, to ski south of the border during the Christmas season.

Hon. R. F. Nixon: That was to keep myself healthy so I would not need a heart bypass.

Mr. McCague: You cannot get one.

Mr. Pelissero: Because he does not have a heart?

Hon. R. F. Nixon: All right. Score one for you.

Mr. McCague: I understand that the exchange rate this morning is around 84 cents or a little better than 84 cents, according to the news. I do not quite understand the relationship between the Bank of Canada rate and the exchange rate; in other words, what they do to compensate for that. Maybe somebody—for myself and maybe others here and the viewing audience—would like to explain that.

Hon. R. F. Nixon: I would like to hear the answer from the experts as well.

Mr. Ploeger: Steve Dorey is here, who is senior policy adviser in the economic forecasting branch. He will speak to that.

Mr. Dorey: What we have seen over the past three or four years has been inflation rates in Canada and the United States converging quite a lot. The inflation rate in Canada in 1986 was 4.2 per cent. In the United States it was slightly under two per cent. The rates are virtually identical this year and we expect them to be virtually identical next year.

Despite that convergence, what we have seen is that the short-term interest rates in Canada remain nearly three percentage points above short-term rates in the United States. What that tends to do, because that difference is largely a result of Bank of Canada policy, is to cause large inflows into Canada to buy Canadian bonds, Canadian interest-bearing securities, which in turn have the effect of pushing up the value of the Canadian dollar because it is more in demand.

Mr. McCague: I have heard reference to the exchange rate though at

84 cents, which admittedly is a couple of cents more than the Treasurer thinks is the ideal situation. I have heard that affects what the interest rate is set at by the Bank of Canada. I thought I had heard that when the exchange rate goes up, so does the Bank of Canada rate. I heard something this morning that said it was the reverse; when you go to 84 cents, very likely the Bank of Canada rate will come down.

Mr. Dorey: In general, when interest rates rise they tend to pull up the value of the dollar. If the dollar is higher than the Bank of Canada believes is desirable, it then has room to allow interest rates to come down somewhat. That is the connection.

Hon. R. F. Nixon: But I think you throw into this the fact that the Bank of Canada is obviously not just sitting there watching what is happening. My assessment of it is that the policy of the bank is to be vigilant about inflation. It is very concerned that it does not want that engine to get running again. It is quite a good thing. If credit goes to the Bank of Canada policy, I am quite prepared to give it to it. Inflation, while it is not low enough to be very satisfying, still seems to be stable. It is not steaming away there, ready to give us problems.

The feeling that I have is that the Bank of Canada is overly concerned about that, and that the spread of three per cent is a bit unnatural and gives rise to certain dislocations in the economy and an inability of our industry to compete by way of availability of capital. I regret that a bit. I would like to ease off that high-interest policy. That is what I would prefer.

Mr. McCague: Then does the exchange rate, as it moves upward, have a direct effect on inflation?

Hon. R. F. Nixon: I would say that it will not; but if inflation starts to move, I guess the Bank of Canada's policy is that the best way to cool it is to raise interest rates. I hope that my officials will not hesitate to say, "You are wrong there, minister," if they believe I am, or to make a comment.

Mr. Dorey: To the extent that higher interest rates cause a higher dollar, that higher dollar then reduces the price of imported goods and those imported goods will therefore cause less inflation. That is one way in which that mechanism will work.

Mr. McCague: The higher the exchange rate, the less effect it has on inflation; or it has a deflating effect rather than an inflating effect?

Mr. Dorey: That is right.

Mr. McCague: Treasurer, are you considering any form of means testing in your upcoming budget?

Hon. R. F. Nixon: For what?

Mr. McCague: Government programs.

Hon. R. F. Nixon: Anything associated with health care, which is paid for with federal participation, cannot and should not by my view be means tested; but there are other programs that I could think of, particularly in the future where, as they expand, they should be focused on the people in need rather than the people who would otherwise qualify in an automatic way.

For example, on the home care program which is currently being discussed in the Legislature quite extensively: as the local member does, you probably have constituents who are in receipt of that service. Certainly in Brant county it is one of the areas where the program is working very well, but it is growing very rapidly. There are many people who get full dollar support who have said to me, "I am quite prepared to pay a part of this and I am very glad to have the assistance."

For a program like that which grows so rapidly and can be so expensive and has other pressures--for example, the people who are working in it can be said by any fair and impartial observer not to be adequately paid in some respects--which would increase the cost, in my view the people who can afford to pay for that should pay a part of it.

Mr. McCague: When we had before us your assistant deputy minister, Mr. Leonard, talking about national sales tax, we listened to him for quite a while and then the point was raised with him that everything he had said to date seemed very positive, and were there any negatives? The negatives did not seem, in his opinion, to be too many. The main one was that it was complicated and would take quite a few years to fully implement. Is the opinion that he expressed one you share?

Hon. R. F. Nixon: It is certainly going to be complicated, but from our point of view we have a mature sales tax administration. Nobody likes paying the tax, but it returns about $8 billion to revenue at about $1 billion a point. People are used to it. The vendors collect the money and send it in. Over Christmas, it comes in at $33 million to $35 million or $40 million a day. It is not enough, but a lot of money comes in.

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The idea of giving that up and going into a new program administered by the federal government or with shared administration, with all the complexity of a changed tax base and political turmoil associated with it, in some respects is not very positive or attractive. As a matter of fact, we look at it and say, "Would we be making more money?" You may say, "Well, you should not look at it that way," but that is the way a Treasurer has to look at it.

Frankly, the answer is no, even though the federal government is saying everything would be taxed, all goods and services except groceries, drugs and certain medical things, everything else would be taxed. You might think that is a huge new base, that if you go into it with your eight per cent tax, you will get a mountain of money.

In fact, the way the business transfer tax would be constructed, and I can see good reason for the federal government to do this, business inputs would be exempt. The big advantage is that if we are making cars, widgets or plywood here, it goes to the border without a sales tax component in its selling price. That is extremely important for international competition, but our sales tax within the province does tax business inputs. If I were to exempt business inputs like that overnight, I believe our revenues would go down by $2.5 billion to $3 billion. That is a big chunk of money.

If we go into the federal tax the way it presently is envisaged, business inputs would be exempt. That has all that advantage for export, but the disadvantage for the Treasurer is that the money goes down, we do not get as much money. But the base would be broader, according to the federal people. They want to tax drycleaning, haircuts, legal fees, consultants' fees and all

that stuff. It would just about make it up, so that our revenues would be about the same. So you ask: "Do we really want to go through this turmoil? What is the advantage?" There are a lot of advantages for business, because if we keep our own tax and the feds come in with theirs, and they have said they are going to, then the business people will have to deal with two of those things. I can see why that is not attractive for them.

Also, there is something that would be, in the mind of the Minister of Finance, very positive, and I sense it would be positive as well. If you can get the provinces to co-operate on a tax as we do, except for the province of Quebec on personal income, and where we have close co-operation on corporation income tax, it tends to be an advantage for the nation, I hope, by way of international competition, which is more and more important. We have to have jobs, we have to have markets. Looked at that way, you can see we are considering it.

The political aspects are obvious, because people do not like these taxes, they do not like our tax. Our rate would stay the same if we were going to go in or until some government at some time in its wisdom decided to change the rate, but the base would be something that would be set federally or set under federal authority. I am not sure what the question was, but if the question is, are we going to go into it or not, I do not know, we do not know yet.

Mr. McCague: I guess this is the first opportunity I have had to hear you give as many negatives as you appear to have given this morning. On the other side of the coin, Mr. Leonard, when he appeared before us, was very positive until asked about the negatives in the thing. I wonder if you felt really as positive as he did.

Hon. R. F. Nixon: I do not know how he feels about that question, because he is a very good official. He heads our part of the working group, and I have the feeling, and this is just my view of his ability, that if you were to talk to the working group, you would find that he knows as much about this sort of thing as anyone you can find in Canada. He has a natural interest in this sort of thing.

There is complexity and this is what officials are there for. The government says: "We want to do this. Figure out how to do it in the best way." That is a great job. That is an interesting thing to do and a very important and effective public service. I cannot comment on how enthused he is. He reflects the policy of the government, and the policy of the government right now is to participate in the working group in a positive way to work out any problems that would be there if the province went into such an arrangement in the future.

Mr. McCague: If I could sum up for you then, you are saying all your options are open.

Hon. R. F. Nixon: Right.

Mr. Haggerty: I want to go back on the exchange rate. Some members have previously directed their questions to the minister on that.

The document committee members have, Economic Outlook and Fiscal Review, Ontario 1988, deals particularly with the mining sector in the province, the resources sector.

Hon. R. F. Nixon: What page?

Mr. Haggerty: Pages 43 to 45. You have some charts on page 44, metals price performance. I have raised this question in the past to different ministers when I was in opposition at the time. You notice that nickel and copper and zinc and gold are all sold at the price of the American dollar, not at the price of what it costs to manufacture or process them in Ontario. It has been like that for a number of years.

It was interesting. I did enter into a debate at one of the sessions on free trade in my area during the last federal election and some of the employees thought this was a great deal. I said, "Where do you work?" They said, "At Inco." I said, "What about your pensions?" They said, "What do you mean?"

I said: "If the nickel is sold at the price of the American dollar and the pension money that is generated from Inco in the metal industry"——and I am sure there are others doing the same thing——"is sent back to the United States in the pension funds and used there to help finance perhaps other areas of industrial growth, perhaps even in Ontario, it would be nice if your pensions were received in the American dollar." They said, "We never thought of that."

When you look at the price and talk about the exchange rates, do exchange rates really have much to do in the matter of the operations when you are selling any goods manufactured here in the resource industry at the price of the American dollar? That is at the world price, the American dollar. Really, is there any exchange rate in this particular area?

Mr. Hoicka: Yes, certainly in industries like the mining industry or the forest industry, which export a large amount, they sell basically on a US dollar basis. However, a large proportion of their input costs are on a Canadian dollar basis. Their wages are on a Canadian dollar basis: stumpage, for example, would be Canadian dollars, and their transportation costs would generally tend to be in Canadian dollars.

If the Canadian dollar rises relative to the US dollar, it naturally puts a squeeze on the profits of the company. On the other hand, if the Canadian dollar goes down, then there is a much larger gap and their profits go up. Certainly the resource industries were much happier with a 75-cent dollar a year ago than they are today with an 84-cent dollar as of this morning.

It happens that this is probably a more convenient time for them to have a high dollar than at many other times in the resource cycle, because prices have gone up in US dollars for most of the resources over the past year too, so in fact their prices have gone up in US dollar terms. It is true that their Canadian dollar costs have gone up as well, but it is a much better situation to be in right now than, say, in a recession time period when prices are dropping. Their profits remain high; they are just not as high as it would be nice for them to have right now.

However, there is certainly a risk in the next downturn. If we continue to have a high Canadian dollar and there is a downturn in the international or the US price of these resources two to three years down the road, that could be a very difficult situation for these companies.

Mr. Haggerty: But as the Treasurer said, back in the early 1960s, when you had the Canadian dollar at $1.05 and the American dollar at $1, or at 95 cents and $1, whatever way you want to put it, they could still make a profit and operate at that market level.

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You see, when you come back to page 5 in the comments here, they talk about the United States outlook, where you have a huge federal budget deficit, and the difficulty in trade with the United States, the huge deficit you might be in, this area of the trade imbalance in the United States because of the price of the American dollar in selling its goods. You say $1.30 a pound for nickel or something, or the value of the exchange rate there.

In other words, you can have the transfer of goods manufactured here in the resource sector. It is manufactured here but it is sold at the price of the American dollar. You put quite a spread when you get into the other areas of trading. I think this is one of the areas that the United States has had difficulty with, the price of the American dollar, because as soon as that dollar came down, and it has come down considerably, their trade deficit also reduced considerably. They are forecasting that there will be a further drop in the American dollar so that they will be able to compete in the world market. It is a vicious circle out there.

How do you resolve the problem if you are going to be trading? If you are talking about a bilateral trade agreement between the United States and Canada, one of the things that is going to be striking home here very shortly is that they are going to say, if you talk about harmonization, will there be a further levelling-off period in exchange rates between Canada and the United States? If we are going to be trading partners, somewhere along the line the dollar has to be a dollar. The value has to be the same.

You cannot have manufactured goods here in Canada in the resources sector established at the price of the American dollar, because that means that we cannot really be competitive. At one time, in 1977, and I think Mr. Mackenzie will remember this, the committee dealt with a huge layoff of employees at Inco. Many of them had to take early retirement. If they had the price of the American dollar included in their pensions--

Mr. Chairman: Your question then is, how can we in Ontario resolve this?

Mr. Haggerty: That is correct. How can we be competitive if we are going to tie more closely into the American economy? Our dollar is well above anywhere else in the world, you might say. How can we be competitive? Is there some fear in this free trade agreement that we will have some serious side effects to it?

Hon. R. F. Nixon: I do not know what the answer to that is, other than there are going to be these problems and uncertainties in the economy and particularly in international trade. There are experts who can make projections about the relative values of the dollars, and when you actually get to the time that they are projecting, they are always wrong. That is no criticism, because they are academically well qualified and well experienced, but you just have to make the best projections you can.

Nickel is now selling at close to $10 per pound. It is really quite phenomenal that the mineral sector is doing extremely well. Gold is doing extremely well, so those problems sort of disappear in the fact that the market is so good. For many of these metals, the price is actually set at the exchange in London, England, in pounds, or it used to be. It circulates out around the world and whatever happens to the English pound on that basis--oil is traded on the basis of a price established in Chicago, not anywhere else,

not Regina or Abu Dhabi. These are just the ways the market develops. We participate and compete and are reasonably successful.

Mr. Haggerty: There is perhaps one recommendation I want to flag here. I thought I would get some interest from Bob over there, but I do not have it yet. I am thinking about the massive layoffs, particularly in the resources industries, back in 1977. There is a good possibility some major structural changes will be made in industry in Ontario. Some may be forced to close and some may take the option to relocate.

We have seen it happen in the past that there is an additional cost, a social impact upon the provinces or communities that have to share this loss. I am thinking particularly about the Workers' Compensation Board. I have seen over the years where revenue has been lost when plant closures happen. Normally, there is a cost involved to the WCB. A number of injuries happen in the industries. When a plant closes, there is no more assessment picked up by the WCB from the particular industry. That cost is passed on to other industries within Ontario to pick up the lost revenue.

Someplace along the line, I think Ontario should be looking at saying there is a cost to doing business in Ontario. Where there are permanent disability and permanent assessment awards, particularly towards a certain industry that may be phased out, there should be some type of superfund you can always draw on. You just cannot close the door and say: "You've become part of the welfare state now. You have to pick up the cost yourself." I think you have to look at another program to pick up that lost revenue from doing business in Ontario.

Hon. R. F. Nixon: I am interested in your comment, because I am sure you are aware that in the pension area we have a pension guarantee fund. The responsibility the province carries in that fund concerns me sometimes; not when the economy is buoyant. Certainly, our most recent experience was when Massey-Ferguson folded and there were pension commitments that had not been fully funded. That pension guarantee fund may, in the future, have to be called into play. Basically, it calls upon other pension-paying companies to make that up. The point is comparable and a good one. We will look into that.

Mr. Haggerty: That was my next question. I mentioned pensions, but I dealt particularly with the WCB, because I can see that is a serious problem, that the Treasurer may have to find some additional funding to keep that going, too.

Hon. R. F. Nixon: You talked about the cost of doing business in Ontario. Obviously, there is. The tables in here show our position vis-à-vis competing countries on wage rates, which are interesting. Sometimes we are lower and sometimes we are higher, but it is interesting and our competition is there.

Business complains a good deal, and I do not think inappropriately, that these costs are very high for workers' compensation and for pensions and for the regulations we have put in that require a certain degree of social policy to be fulfilled. The most recent is pay equity, which we have discussed quite a lot. It is now enacted but over the next few months will be coming into play, and business will see there is a cost there that is balanced with social justice.

You talk about a cost of doing business here. It is very real and it is important that we maintain our responsibilities as politicians in providing an

approach to social justice, if not perfection, and at the same time see that businesses can invest its capital on a competitive basis in Ontario.

Mr. Haggerty: I have a second question that deals with demographics. I will let it go on to somebody else.

Mr. Chairman: I have three other questioners. I was wondering if the witnesses had any other presentation, because I notice you have a slide projector there.

Mr. Ploeger: I did bring a slide show that I have here for distribution. If you run out of time, I guess I can distribute the slide show to the members of the committee. Not all slides are equally self-explanatory. If you like, on those where there is a text problem, I could provide the committee with explanatory notes from particular slides that would have--

Mr. Chairman: I am in the hands of the committee.

Mr. Pelissero: Keep going with the questions.

Mr. Chairman: Keep going with the questions? Perhaps you could distribute them.

Hon. R. F. Nixon: I am going to have a problem starting about 11:30, but the officials of course will be here.

1120

Mr. Chairman: All right. Let's carry on then.

Mr. Ferraro: I have a couple of questions to ask of the Treasurer and his staff, one pertaining to the recent sales tax proposal and the other pertaining to the sales tax increase in Ontario.

Let me say at the outset that I am upset. I will be damned angry if they put a tax on haircuts, because I am paying too much as it is.

I have been a member of this committee--excuse me for setting the table a little bit--for over three years now. The reality of forecasting and looking after the provincial pie, as I am sure you know, is a very onerous one. We have a cumulative deficit of around approximately $37 billion, I think. You have the operating deficit substantially reduced to below $1 billion.

Hon. R. F. Nixon: The operating deficit is a surplus.

Mr. Ferraro: I am sorry. I guess I am talking about the $980 million cash requirement.

Hon. R. F. Nixon: Cash requirements are about $470 million this year.

Mr. Ferraro: What is the $980 million?

Hon. R. F. Nixon: I do not know what it is, because the budgetary deficit is $1.5 billion this year and the cash requirement is about $475 million.

Mr. Ferraro: Okay.

Mr. Chairman: You may be thinking of last year's.

Mr. Ferraro: Maybe I am. Yes, you are right; I am sorry.

Anyway, the deficit is not being reduced as quickly as some in the business sector would have it; in fact, as most Ontarians would have it. You have decreased growth. You are going to have unbelievable cash requirements when one considers unfunded liabilities, whether it is pensions or Workers' Compensation Board, health care and all the rest of the stuff. You have a reduction in increase of transfer payments from the federal government.

I guess what I am concerned about is, quite frankly, that while I have not made up my own personal mind on retail sales tax, if we are going to be serious about addressing deficits and looking after the cash requirement needs--the positive aspects of what retail sales tax is all about--increasing and broadening the base and increasing revenues surely must be inviting on that side of the ledger, especially when one considers that real growth is really going to be in the service sector in the next few years.

My question to you then is, first of all, hypothetical: Why the hell would anybody want to get into this if it is going to be revenue-neutral? Second, surely there are some positive aspects of broadening the base and subsequently increasing revenues so that we can address these problems.

Hon. R. F. Nixon: In response to your comment, I am quite positive about the fiscal stance of the province. You talk about the deficit. I really have stopped talking about net cash requirement. Nobody understands what that is, but they understand budgetary deficit. If you compare what you are spending with what your revenue is, they say we are going to be behind by another $1.6 billion.

In that connection, this year we are borrowing $1.6 billion. That goes on the net debt and we pay interest on that and so on, but at the same time we are spending close to $3 billion in capital improvements this year. This is not something that is intangible. These are university buildings. They are bridges. They are roads. They are environmental facilities to look after sewage and so on. That is $3 billion, and we are borrowing $1.6 billion to pay for that; In other words, half of it we are paying from our cash flow.

Mr. Ferraro, you are a banker and if you had a business coming in and saying that it was going to build an addition to its garage, store or something and it was going to meet almost half the capital cost out of its cash flow, I am sure you would jump at the opportunity to lend it the rest. I do not know any business that is much more conservative than the financing of the province of Ontario.

So the old feeling goes around, frankly, from the chamber of commerce. They are always writing to me. They are business oriented and I value their views--in case any of them are watching. They are always saying, "Cut the deficit." It seems to me that deficit level is reasonable. I would like it to trend down, particularly as the economy continues, but frankly, to pay for our capital resources out of our regular flow does not make sense to me. I would think our taxes would be too high if we were doing that.

As Treasurer, I have raised taxes in two budgets. There are those who are unkind enough to refer to them as the largest tax grabs in our history. I consider them to be rational and carefully considered expansions of the revenue base. In return, we have increased our expenditures in all of those

areas of primary concern that all of us share at a rate that is faster than other provinces. That concerns me a little bit, until we compare the per capita costs of our programs, and they are not out of line with other provinces.

We are very big and we have a very wide variety of these things, but oddly enough, I am reasonably satisfied with the decisions I have made. I do not think the fiscal aspects of the province are precarious. Our regular day-to-day financing is really in substantial surplus and we could present the budget as a surplus budget. There is $1 billion that we take in that is not required to run the government and that goes to capital, and then we borrow about $1.6 billion; I think that balance is not bad.

I have said that as long as the economy remains buoyant, I would expect the budgetary deficit to be reduced. I will try to do that since I have said I would, and naturally, I think that is the thing to do. I do not feel negative about it.

You are looking at this sales tax and you ask the very question that is in my mind: "Why do it, if there is no more money in it?" I think there is something to be said for a broader base, although nobody likes to pay tax on haircuts or dry-cleaning or whatever would be brought into it. We do not like that. We are used to the base that is there, and if you do not change it nobody criticizes it specifically, so this is just a conundrum.

We are looking at the positive aspects, at co-operation with the government of Canada and other provinces. There is a certain political aspect about them setting the base and us setting the rate, which you as politicians might be able to perceive may or may not be reason to give it some positive review. But certainly, I agree with the Minister of Finance for Canada that the present sales tax at the manufacturing level is a bad tax for a competing trade country. In a trading nation, Canada, we are the main trading province, so it is bad for us as well as for the rest of the provinces.

Mr. Ferraro: Let me narrow in a little further. I appreciate the Treasurer's answer. On page 88 of the report, I think it is the first time I have seen this in, I think, the three reports your office has given this committee; I could be wrong. You show, "Retail Sales Tax Expenditures, Estimates of Ontario Revenue Forgone in 1988-89." Now I assume that is based on eight per cent, but essentially in the service sector alone—which you also say in your report is going to grow a hell of a lot faster than the area of tax revenue from goods—it is estimated at $7.2 billion. You said earlier, I think, that it would be revenue neutral from the standpoint that probably our rate would not be eight per cent on that.

Hon. R. F. Nixon: Yes, it would.

Mr. Ferraro: Would it be? Would we leave it at that?

Hon. R. F. Nixon: Its neutrality is based on the rate, nothing changing, other than us going in the way we are into the proposed federal system.

Mr. Ferraro: But if in that area alone there is increased revenue, by your own department's estimates, of $7.2 billion, and I think you said your major concern was the loss of business investment for input tax of around $2.5 billion to $3 billion, how the hell is it revenue-neutral?

Hon. R. F. Nixon: No, the big drawback is that for many of these things, although the tax would come on them in the goods area, because it is a business transfer, they would be exempted.

Mr. Ferraro: By about $3 billion.

Hon. R. F. Nixon: So the officials here have indicated. You see, not all of these things would be totally taxed either, so I cannot answer your question other than to say that the way the federal people have proposed it, our revenues would not change, mostly because we would forgo business transfers. This has a tremendous advantage in trade, but from the standpoint of the Treasurer, in revenue, there is a reduction.

1130

Mr. Ferraro: The second and last question I have--

Mr. Chairman: Does your next question need to be answered by Mr. Nixon? Mr. Morin-Strom has a question.

Mr. Ferraro: I think it does, and I will be very brief, if I can.

Mr. Chairman: All right.

Mr. Ferraro: In the next few meetings we are going to get, the Liberal government is going to get some criticism, to say the least, by some delegations that are going to say our retail sales tax increase was regressive and we should not have done it. You have been asked this question.

Hon. R. F. Nixon: You are the people who put the ad in the paper, not me.

Mr. Ferraro: We were told. We had no choice.

Hon. R. F. Nixon: You did not ask me for my view on that.

Mr. Ferraro: They did not ask me either.

Anyway, my concern is that they are going to say, "You could have done it, because you have had an increase in real growth for the last seven years. You could have cut budgets to a further degree and you could have balanced it," and all the rest of that stuff. Specifically, do we have any bearing as of right now as to what degree the regressivity--which I am sure is going to be the theme of many of the delegations; of both of them, I suspect--has affected revenues?

Mr. Chairman: There will be two delegations.

Mr. Ferraro: The entire two delegations on which we spent $10,000 putting advertising in the paper and allocated six meetings to. Do we have any bearing on that?

Hon. R. F. Nixon: No. I indicated that my views on regressivity have changed somewhat. I am not going to reiterate that. Is there any information in response to Mr. Ferraro?

Mr. Ferraro: What I am saying is, from original estimates, has real

growth been close to or enhanced or reduced as a result of increasing the sales tax to eight per cent?

Mr. Dorey: No, from the evidence we have seen so far, we do not think the retail sales tax has had any significant effect on real growth. It has had a slight inflationary impact, but in terms of real growth, retail sales have been quite strong since May 1 when the tax came into effect and we do not really see any effect.

Mr. Ferraro: If you had not increased it one per cent, would you have had more real growth? That is my last question.

Mr. Dorey: It is very difficult to estimate that. We have the amount of real growth that we had forecast, 3.7 per cent, in consumption this year. It looks like we are going to achieve that particular forecast, so it does not look to us like this particular tax has reduced real growth. It has probably reduced savings somewhat, but not real growth.

Mr. Morin-Strom: I think the Treasurer has made an interesting point here with regard to the redistribution, where the sales tax revenue would go under the federal sales tax plan. If in fact it is, in total, revenue neutral to the province, which you are suggesting, what will happen is that there will be a reduction of $2.5 billion to $3 billion in terms of the cost of business input sales tax on products being exported.

Hon. R. F. Nixon: I have a feeling you are getting into something where we should have our assistant deputy minister on tax reform to deal with those numbers.

Mr. Morin-Strom: Regardless of what the numbers are, there is going to be a reduction in the taxes businesses have to pay on products exported from the province. You are going to take the same sales tax revenue, though, which means that instead of foreign countries paying that tax on products being exported from Ontario, obviously Ontario consumers are going to have to pay it. There will be an increase in the taxes paid by Ontario consumers, by $2.5 billion to $3 billion, on products in Ontario if you are going to be revenue neutral here in the province.

Mr. Ferraro: Income tax is supposed to do that.

Mr. Morin-Strom: I am talking about sales tax that is revenue neutral to the province.

Hon. R. F. Nixon: You understand the advantage of that is--

Mr. Morin-Strom: The advantage is in terms of export. What is the advantage in terms of the consumers of the province?

Hon. R. F. Nixon: They have jobs.

Mr. Morin-Strom: How many jobs? What is the quantity?

Hon. R. F. Nixon: That is the whole point of it. If we are going to be a trading nation in a competitive world, then the price of our products has to be such that people will buy them in competition with everybody else. The regressive aspects, which we have been talking about here in some detail, are fixed, mitigated, reduced, relieved to the extent that is possible by a tax credit system which we already use in the province here. You might consider it

inadequate—I would tend to agree—but it is a substantial indication of the relevancy of the regressive aspect, and we put a lot of money into relieving that.

Mr. Morin-Strom: But most products exported from Canada are traded in international markets at prices which are set in international markets. When we sell in the United States, which is our primary market, we are selling at a price determined in the United States. Our exporters, in terms of their current exports, are not likely to—

Hon. R. F. Nixon: You are talking about resource products, not manufactured products.

Mr. Morin-Strom: I am talking about cars, which are our biggest product—

Hon. R. F. Nixon: If our cars are cheaper than Korean cars, they are going to be more saleable. If you are talking about lead, zinc, tin and even plywood, I would agree with you, but manufactured products are different. If we can make them cheaper here and maintain quality, we are going to sell them.

Mr. Morin-Strom: I would like to know what the balance is that we are going to get in benefits, in terms of additional exports and additional jobs in the province, which will be the offsetting factor for the extra $2.5 billion to $3 billion consumers in the province are going to have to pay in sales tax revenues.

Hon. R. F. Nixon: The balance is going to be that this is one of the major trading jurisdictions in the world. It is absolutely essential, as the European Community becomes co-ordinated and as we have free trade established by the Parliament of Canada, that Ontario maintain and strengthen its competitive position. Your view of that is that somehow the labouring masses, in which you and I include ourselves, are going to carry an undue extra burden. I do not believe that is so. If I thought it were so, I would not even think of going into the system.

Mr. Morin-Strom: If you believe that the additional benefits from jobs and exports are going to provide the stimulus we need in the province, instead of making it revenue neutral to the province, why do you not make it revenue neutral to the consumers in the province and ensure that the consumers do not pay additional sales tax over what they have paid in the past?

Hon. R. F. Nixon: This gets back to the perennial discussion about the balance between corporation income tax and personal income tax. It is exactly the same position: Why should the people pay when the manufacturers are not paying enough? Once again, it is a balance that the government of the day has to maintain on the advice of the Treasurer. The people observing that balance consider it either supportable and therefore fair, or as fair as it can be, or otherwise. The reason you and I are here is that we do not really agree on what that balance should be.

Mr. Morin-Strom: It appears that you prefer to put the money into the pockets of the multinationals.

Hon. R. F. Nixon: Oh, wait a minute.

Mr. Morin-Strom: That is right. A sales tax reduction of $2.5

billion to $3 billion on companies which are purchasing goods from Ontario, outside of the jurisdiction of Ontario.

I have a last question. With regard to the Bank of Canada interest rates, most of the provincial premiers have contended that interest rates are artificially high in Canada. The governor of the Bank of Canada has stated he thinks they have to be at that level in order to depress or hold down a burgeoning Metro Toronto economy; that, of course, is having some impact on the exchange rate. Do you feel that the governor of the Bank of Canada should reduce interest rates in order to provide further economic stimulus to other areas of the province and the country?

Hon. R. F. Nixon: I think the initiative taken by the Bank of Canada, which has resulted in a spread of up to three per cent between American interest rates and our interest rates, is unnecessarily restricting. It may be true they are thinking of Toronto, but they are thinking of inflation. Maybe they think of Toronto when they think of inflation; I do not know about that. I think the interest rate spread would be better if it were smaller and I believe the policies of the Bank of Canada could effect a reduction in that spread. I hope they do something about it.

Mr. Chairman: Thank you very much. I realize you must rush.

Mr. Ploeger, perhaps in the time we have left you can assist us with some of the slides you were going to show us. We have about 10 or 15 minutes.

Mr. Ploeger: I suggest Steve Dorey start the slide show off and take us to a macro view of the world, the recent performance of the economy in the short and medium term. Time allowing, we will then bring on other players. Before that, we will distribute the document. As I mentioned, on the unfinished part we will provide comments where necessary if the slides are not self-explanatory.

1140

Mr. Ferraro: I will put this to the committee. With about 12 to 15 minutes left before we all go in and participate in private members' hour, I wonder whether--it appears we are going to have some time, anyway--we should have the Treasury people back to present this in detail. I ask this of the committee.

Second, perhaps if the committee agrees, we could ask individual questions. For example, if somebody could explain to me again the accumulated debt, the net cash requirements and how we add to the accumulated deficit, it would help me immensely. But if that is not the committee's wish, fine.

Mr. Chairman: I am in the committee's hands. We did leave another matter. One was that we rushed through some matters with regard to the fiscal review. We have done the assessment of this review in a bit of a hodgepodge way, because we started to assess it before you released it. Mr. Morin-Strom mentioned to me privately that he hoped one of the previous witnesses from Treasury would come back as well.

It looks as if we are going to be able to deal with Bill 122 in less time than had been predicted, and we may have time available as early as next Wednesday, after routine proceedings, to look at this matter again. If it is the committee's wish, we can ask you to return and perhaps spend a considerable period of time looking at this whole document in some depth. That

may be more agreeable to everybody. The very first time we went through this two years ago, we went through it in great detail. I think the committee found that a book can be written for practically every sentence in here. There may be a lot of questions to be asked.

Would that be preferable, then, to have you come back on Wednesday--

Interjection.

Mr. Chairman: Or Thursday morning, you are suggesting. Maybe I am rushing things too much. We have two witnesses on Bill 122, followed by clause by clause. The clerk is suggesting that it would be rushing it too much to try to do those in one day following routine proceedings. What does the committee feel?

Mr. Pelissero: Next week.

Mr. Chairman: Then we will ask them to come back next week, next Thursday at 10 a.m. in this room. We will deal with that matter then.

The committee adjourned at 11:43 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

RETAIL SALES TAX AMENDMENT ACT

TUESDAY, JANUARY 10, 1989

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Campbell, Sterling (Sudbury L) for Ms. Hart
Offer, Steven (Mississauga North L) for Mr. Pelissero

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From Motels Ontario and Tourism Ontario Inc.:
Gravel, Bruce M., President, Motels Ontario; Director, Tourism Ontario Inc.

From the Ministry of Revenue:
Grandmaître, Hon. Bernard C., Minister of Revenue (Ottawa East L)

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, January 10, 1988

The committee met at 4:58 p.m. in committee room 1.

RETAIL SALES TAX AMENDMENT ACT

LOI MODIFIANT LA LOI SUR LA TAXE DE VENTE AU DETAIL

Consideration of Bill 122, An Act to amend the Retail Sales Tax Act.

Etude du projet de loi 122, Loi modifiant la Loi sur la taxe de vente au détail.

Mr. Chairman: I see a quorum. We can get started now dealing with Bill 122, An Act to amend the Retail Sales Tax Act. We have with us the Minister of Revenue who has an opening statement.

Hon. Mr. Grandmaître: We met with Bruce Gravel who is the chairman of Motels Ontario. Is this the right title?

Mr. Gravel: President.

Hon. Mr. Grandmaître: I have a very short bilingual statement. I will get on with it. As the minister responsible for the administration of the Retail Sales Tax Act, I am pleased to bring this bill, An Act to amend the Retail Sales Tax Act, before the committee today. The bill includes proposals contained in the Treasurer's budget of April 20, 1988, specifically an increase in the general rate of sales tax from seven to eight per cent, provisions to clarify the tax treatment of the federal telecommunication tax, the delivery charge and advertising supplements, and provisions to strengthen the administration of the act. Now I will repeat myself in French.

1700

Ce projet de loi renferme des propositions présentées par le trésorier dans son budget du 20 avril 1988. Il comprend plus particulièrement: l'augmentation de la taxe de vente à huit pour cent; certaines dispositions destinées à clarifier le traitement fiscal de la taxe fédérale sur les télécommunications; des frais de livraison et des suppléments publicitaires; ainsi que des dispositions destinées à renforcer l'exécution de la Loi.

This revenue is needed to pay the bills for and to invest in better health care, to enrich education and improve social programs such as housing, better roads, etc.

Holding the line on tax increases would have required a significant increase in the provincial deficit. That strategy would have been fiscally irresponsible. It should also be remembered that to offset the impact of this tax measure on low-income Ontarians, the Treasurer more than doubled the benefits provided by the sales tax credits, an increase worth $85 million per year. Given the financial situation faced by the government, I believe the tax measures contained in this bill are necessary and have been introduced in the fairest way possible.

Before proceeding further, I would like to introduce the members of my staff who will be assisting with me in the proceedings. They have not shown up

yet. The deputy minister was here and also--

Mr. Chairman: In fairness, the deputy minister and the two others were here when I entered the room before three o'clock. They were patiently waiting for a long period of time. I understand they have had a useful meeting with Mr. Gravel in the meantime.

Mr. McCague, do you have any comments you want to make at this time before we begin?

Mr. McCague: It is nothing that I have not said to the honourable minister before. It does not seem to matter much whether you ask him the question or you ask the Treasurer. You get the same answer. I am surprised that it is--

Hon. Mr. Grandmaître: As long as we are on the same frequency.

Mr. Haggerty: We're consistent. That's the main thing.

Mr. McCague: It is all for roads and so forth and so on. But, no, I do not wish to chastise the minister today. Maybe tomorrow.

Mr. Chairman: Mr. Gravel, then, would you like to take a seat at the witness table and lead us through your brief? Just have a seat there and lead us through your brief, highlighting anything you wish to let the committee members know.

I should indicate to committee members that our one other scheduled witness, the Ontario Cable Telecommunications Association, will be arriving tomorrow. That includes the president who is flying here from Ottawa. So if anyone has any inkling of any idea as to whether or not we will be sitting tomorrow, it might be helpful to let us know and we might be able to let the witness know.

Mr. McCague: Sorry, a second on that point. You might be able to find out fairly quickly whether it is possible to reschedule the Treasury for tomorrow afternoon and the witness for Thursday morning in case there is some further nonsense from a party that is not here at the moment.

Mr. Chairman: Although it was a member of your party who adjourned the debate, but we will let that drop.

Mr. McCague: That is why you are here.

Mr. Chairman: Yes, I appreciate that. That is a good point. Maybe we will do that or attempt to do that perhaps today.

Mr. Gravel, will you lead us through your presentation?

Mr. Gravel: I did not fly in from Ottawa, but I drove in very fast from Peterborough, so I guess that almost qualifies.

TOURISM ONTARIO INC. AND MOTELS ONTARIO

Mr. Gravel: I do appreciate the opportunity of making this presentation this afternoon. I believe all members of the committee present have copies of my presentation and I have an extra one or two here in case they do not.

The presentation will outline the serious concerns of Ontario's tourism industry to the tax increases contained in the April 1988 budget. I am wearing two hats this afternoon. As a director on the board of Tourism Ontario federation, I am presenting the federation's views, which reflect those of the entire Ontario tourism industry. I am also president, the senior paid administrator, of the Motels Ontario association, which is a founding member of the Tourism Ontario federation. The federation's views impact my own members, Ontario's vital motel industry.

The Tourism Ontario federation is a nonprofit umbrella organization representing 10 Ontario trade associations and the province's 12 regional travel associations. The 10 trade associations are listed in detail in my written remarks, and I will not presume to take your time and go through those, but you will see they range through attractions, resorts, hotels, motels, ski resorts, campgrounds and marinas. Altogether, it represents more than 7,000 business enterprises. Tourism Ontario is headquartered right here in Toronto and its full address and phone number and the name of its senior paid administrator, Roly Michener, are contained in my remarks.

Motels Ontario is a nonprofit trade association, like Tourism Ontario, and is one of Tourism Ontario's members. We represent Ontario's motel, motor inn and motor hotel industry. We are headquartered in Peterborough. Our members are located all over Ontario, in every sector of the province. We were founded in 1949. We currently have over 1,000 members who represent 64 per cent of Ontario's vital motel industry.

Our members are independent small businesses. Businesses are often run by a husband-and-wife team of owners and operators. Our membership is comprised of true independent entrepreneurs whose entire financial livelihood is intimately tied to their motel. That description, ladies and gentlemen, also fits most members of Tourism Ontario's other member trade associations, whether it be campgrounds, ski resorts, hunting and fishing lodges, resorts, attractions, marinas, small hotels, etc. Most Ontario tourism operators are independent small business entrepreneurs whose entire financial livelihood is intimately tied to their property. The industry is definitely not the Westins, the Hiltons and the giant corporations of that nature. Those people are in the minority.

Of my members, 56 per cent have fewer than 20 units; an additional 20 per cent have between 21 and 30 units. In other words, three quarters of my members have fewer than 30 units--true small business entrepreneurs. Of my members, 32 per cent are licensed and 52 per cent have food service. A more detailed profile on Motels Ontario is appended to my presentation, which has been distributed to all of you.

The Ontario tourism industry, including Motels Ontario, was very upset with the government's April 20, 1988 budget. To echo the headline of our May, 1988 newsletter, "Budget Bashes Tourism," and I have reproduced the front page of that newsletter as part of my handout to you.

Retail sales tax went up by one per cent, personal income tax went up by one per cent and is supposed to increase again in 1989 and gasoline tax got a one cent per litre hike, except for leaded gas which jumped by four cents per litre to match unleaded gas.

All of this hurt the Ontario tourism industry, particularly touring vacations, which directly affect Ontario motels. Higher personal taxes meant less disposable income for consumers. This directly affects vacation travel.

Higher gas taxes mean fewer car touring vacations, especially from the United States. It is the gas taxes that are a particular bone of contention with us. It is an established fact that car touring drops every time gasoline becomes more expensive.

The impact of higher gas prices was felt in 1988. Of tourism travel into Canada from the United States, 70 per cent is by car. Inbound US traffic to Ontario dropped dramatically this past summer. Ad hoc surveys of operators throughout Ontario's tourism industry identified our high gas prices as the main cause for the drop in US tourist traffic. Our prices are a severe deterrent to car touring vacations into Ontario by Americans, but they are also a strong deterrent to Ontarians travelling in their home province. Because of this and other factors, like the strength of our Canadian dollar last year, Ontario vacations into the US were sharply up over the previous year.

The federal government has been eager to continually increase federal sales and excise taxes on gasoline over the past four and a half years. Provincial increases only compound this negative practice. In 1984, our gas prices were only 22 per cent higher than in the United States; they are now 60 per cent higher, and that is taking the exchange rate into account. That is a 172 per cent increase in four and a half years.

1710

The tourism industry had a very soft year in 1988. Many operations, particularly in the border areas, were down anywhere from 10 to 15 per cent over 1987's volume of business. According to the latest monthly trends survey by Pannell Kerr Forster, management consultants, provincial occupancy in September 1988 was down 1.3 per cent right across Ontario compared to September 1987. It was over three per cent lower in Toronto, which is habitually considered our boom centre for high levels of hotel occupancy. For properties under 50 rooms, about 80 per cent of Motels Ontario's membership, September 1988 occupancy had a sharp drop, of over 3.5 per cent, compared to September 1987. I have reproduced the Pannell Kerr Forster statistics as appendix A in my handout.

The 1988 budget also eats away much of consumers' extra income. That, we are told, will result from stage 1 of federal tax reform. This is completely counterproductive. I believe the federal Minister of Finance made some statements to the provincial minister last April when the new budget came down.

In an April 20, 1988, news release, Jack Sebeslav, who was chairing the Tourism Ontario legislative policy committee, was quoted as saying that the tourism industry was extremely disappointed with the budget. He predicted that the enormous tax increases imposed on Ontarians would have a negative impact on their business, leisure and vacation travel in the province. His predictions were right on. Our cost-sensitive industry was one of the first to bear the negative brunt of this budget.

Mr. Sebeslav said, "In our view, these unprecedented tax increases of in excess of $1 billion are unnecessary, regressive and inflationary. Ontario has enjoyed a 53 per cent increase in tax revenues during the past four years. During the same period the province has increased its spending by 9.5 per cent annually, or more than double the federal rate. Surely, this spending can and must be curtailed." I have reproduced their official news release as appendix C of my presentation handout to you today.

All of this hurts Ontario's vital tourism and hospitality industry. How vital is it? In 1987, we pumped $9.3 billion into Ontario's economy, or six per cent of Ontario's gross provincial product. Tourism generated $1 billion in provincial sales tax alone in 1987. It is the largest employer in Ontario's service sector; that means it accounts for over 400,000 full-year equivalent jobs. Those were 1985 figures; they are higher now. Tourism is Ontario's second-largest export industry, producing an estimated $2.9 billion in valuable foreign exchange earnings in 1987 alone.

There was some good news in the budget and we do recognize and applaud it. Ontario's five per cent accommodation room tax stayed the same instead of increasing, as was originally feared. The sales tax for alcoholic beverages remained unchanged, although we deplored the fact that levies on alcohol went up, which ultimately meant that the price of alcohol went up. High alcohol taxes discourage vital convention business from coming into Ontario, particularly from the United States.

The budget did increase funding for highway construction and expansions, which the minister alluded to in his opening statements, and we do recognize and applaud that. Of that, 12 per cent was allocated for northern roads. However, this increased road expenditure was funded, so we were told, by the gasoline tax increases, which discouraged touring trips.

The Ontario government, through its Ministry of Tourism and Recreation, spends millions of dollars annually encouraging tourists and convention business to come into Ontario. It is sadly ironic and distressful that another branch of government counteracts the thrust of Tourism and Recreation by its taxation policies.

Through television, newspaper and magazine advertisements as well as many other avenues, American tourists are encouraged to travel "Ontario—Incredible!" But when they get here they are shocked by our high gasoline prices—as I mentioned, 60 per cent higher than theirs—and also by our high sales tax and our prices on alcohol, tobacco and other commodities. Bluntly, the left hand should work in conjunction with the right hand.

According to economic predictions by the Conference Board of Canada and the Canadian Tourism Research Institute, an adjunct of it, 1989 will be worse and not better than 1988. I have given you in my handout material a copy of the Conference Board of Canada's forecast for 1989 which has its logo on the cover page. Some specifics, particularly from the last page of that conference board handout:

Growth in the accommodation and food sector will be only 3.1 per cent this year, and that is less than half the 6.9 per cent growth of 1988. Growth in amusements this year will be barely 1.1 per cent, a sharp drop from the 5.1 per cent growth in 1988. Travel receipts will plummet to a 2.5 per cent current dollar growth rate, down sharply from eight per cent in 1988. These figures represent all of Canada and not just Ontario, which, as I have mentioned already, experienced a sharp downturn in inbound American tourist traffic last year.

Incidentally—and this is an ad hoc statement, not part of the written presentation—the tourism industry does respond very actively and very favourably to government financial incentives. One incentive in particular that I would like to mention is TRIP, the tourism redevelopment incentive program. This is basically a loan guarantee program, and it leverages a considerable amount of private capital which otherwise would not be invested into the tourism industry.

TRIP sunsetted on December 31, 1988. We are working hard with the Ministry of Tourism and Recreation to reactivate it and we are hopeful it will be reactivated. I do not have full statistics on TRIP with me today. It was a suggestion that was made during our earlier meeting with the minister before this committee convened, but I can certainly back up what I am saying with statistics once I return to my desk.

TRIP is one example of how the industry responds extremely favourably to the program. One statistic I do remember off the top of my head is that--as I mentioned, TRIP is a loan guarantee program--the default rate is less than two per cent, which is unprecedented in such programs. Basically, in 1987 and 1988 hardly anybody defaulted on TRIP, causing the government to cover its loan guarantee. TRIP puts back into the Treasury millions of dollars that are not needed because it does not have to pay out its loan guarantees.

Overall, the conference board forecasts only modest economic growth in 1989 and predicts that stage 1 of tax reform will slightly boost consumer spending, but as I noted earlier, Ontario's taxation policies will strip away much of this. The conference board predicts that consumer spending will drop from 1988's 3.5 per cent to only 2.7 per cent this year.

In terms of real export growth--and remember that tourism is Ontario's second-largest export industry--growth will be just 1.9 per cent this year, and that is down dramatically from last year's 11.1 per cent. Business investment growth will be only 2.3 per cent this year, which is down sharply from 1988's 11.7 per cent. The conference board predicts a mild upsurge in consumer spending in the first half of 1989, which will slow and decrease in the second half of 1989; 1990 is predicted to continue this downturn in consumer spending and confidence.

What does all that mean? It shows that 1989 is not expected to be a boom year for the economy and particularly for the tourism and hospitality industry. This industry believes the government must do everything possible to mitigate the effects of this slowdown. The government must certainly not add to this negative situation by imposing even more taxation upon the Ontario public. These taxes directly and immediately impact Ontario's vital tourism and hospitality industry.

I thank you very much for listening to my presentation. Your time permitting, I would be pleased to answer any questions which you may have at this point.

Mr. Chairman: Thank you very much for the presentation. I might say in opening that it did target a particular area of business that, at first blush at least, we seem to have hit rather hard. I do not think that was intended, but there it is. Mr. Kozyra has a question.

Mr. Kozyra: I have several questions. First, a clarification: Mr. Gravel, on page 3, you calculate what tourism pumps into the economy--$9.3 billion. I once heard that all restaurant receipts and all the meals are calculated as part of the tourism industry, whether I eat at a restaurant here or in Thunder Bay, where I am from, or whether it is a tourist who does that. Is that correct?

Mr. Gravel: The statistics in that particular section come from the Ministry of Tourism and Recreation. I am not sure how they calculate it, their internal methodology. I do know, because we are closely connected to the restaurant industry and the restaurant association, that the restaurant

industry does not see it that way. "Local traffic pays the rent" is their saying and tourism traffic accounts for only approximately 25 per cent of their business.

Mr. Kozyra: I do not mean to put down the tourism industry, but I would say that if that is the case, then there is somewhat of a distortion of the exact amount that comes into the economy from tourism and perhaps that should be clarified.

1720

My point, more directly, is to the travel that you indicate from tourism. I indicated I am from the north. Much of that is on the highways. We very much appreciate and welcome tourism; it is a very important segment of our economy. But I point to the roads themselves, which you touched on in your report. They are extremely costly—we are now talking of four-lane highways; the Trans-Canada Highway and others in the north—and are calculated at maybe $3 billion to $5 billion.

In your figures, can you point to some indicators that would show that if the taxation were reduced, the tourism industry upsurge would more than offset the kind of money lost on the one hand—it has to come from somewhere, especially with these demands for highways and other things—to highways in particular, the tremendous demands, or is it just a hypothetical thing that it will increase?

Mr. Gravel: I would say it is hypothetical at this point. I do not have any hard figures in front of me today to back that up. That would certainly be something that would have to be researched and statistically projected out. I know that the raw material is there to do this. I do not believe the industry has in fact done that, so I would not have those figures in front of me.

Mr. Kozyra: I guess my last point is that if the upsurge did not occur for a variety of reasons and the government had reduced its intake, it would be in a very tough position with the demand for road repairs, new road construction and so on continuing. They could be out $500 million, $1 billion or more, and then you are looking at a much more serious problem.

Mr. McCague: You talk about a soft year in 1988, particularly in border areas. I guess embedded in here somewhere are the 1988 figures. You have taken a stab at the 1988 figures—or have you? Overall, do you have those yet for 1988?

Mr. Gravel: No, not for overall. That is the unfortunate aspect of some statistical gathering. The 1988 statistically verifiable hard figures will be available only towards the end of 1989, which would not do this presentation or this deliberation any good. That is why I took care to note that it was an ad hoc survey of tourism operators, basically at two fall meetings of the Ontario Tourism federation, plus my own widespread contacts through the industry, and not just limited to the motel industry. That includes my members in this regard as well; they have experienced a very soft year.

Some areas were very strong. This is just an overall. For example, some areas of the north—North Bay particularly comes to mind, and Sault Ste. Marie—inexplicably were extremely strong areas. Niagara, Kingston and the eastern Ontario border area were quite soft.

Mr. McCague: On page 4, in the second-last paragraph, you quote Canadian statistics and then you mention, "These figures represent all of Canada and not just Ontario, which, as I have noted, experienced a sharp downturn in inbound American tourist traffic last year."

Do you have any idea how Ontario fares with these kinds of Canadian figures? For instance, the growth would be only 3.1 per cent in Canada. Is there anything you apply to that to tell us a little more clearly what the situation is or would be in Ontario?

Mr. Gravel: The conference board would be able to make an Ontario pullout for me. Unfortunately, I do not have those figures in front of me. They do track it by province, however, and the figures I was able to lay my hands on quickly were Canada-wide figures and not Ontario-specific.

Mr. McCague: A more general question is, if the growth in Canada is 3.1 per cent, is the growth in Ontario historically more?

Mr. Gravel: Oh, I see what you mean. Okay. It depends on various factors. For example, Alberta last year had an unusually high growth because of the Olympics and Ontario was definitely affected negatively by the Olympics. It depends on various factors. Expo 86 caused a very high upturn in British Columbia in 1986. I would say that the growth predictions Canada-wide, the 3.1 per cent you mentioned in the accommodation sector, would approximately apply to Ontario in 1989. With unusual provincial glitches notwithstanding—i.e., Expo 86 in BC and the Olympics in Alberta—Ontario is generally in line with Canada-wide predictions.

Mr. McCague: In your statement, where you say the tourism industry had a soft year, that could have been because of the sales tax bill. I might say it is and others might argue about whether there are other factors that made it a soft year.

Mr. Gravel: There is certainly a range of factors. In conversations with industry operators—again not just moteliers but resort people, restaurateurs, attractions people and so on—they cannot pinpoint one specific factor; they mention a range of factors. The cost of gas is one that I hear frequently. The sales tax is another. Cost of accommodation is another. For example, in our motel industry alone a motel room across the border is almost half the price of a motel room here. Why is a motel room here so expensive? It is all the factors that get worked into that: the cost of doing business, labour and so forth. There was not one particular reason that came through in the discussions. It was certainly not helped by factors such as the sales tax on the price of gasoline.

Mr. McCague: When you consider the tourism industry, there's no doubt about it that gas prices affect it, and we have heard this argument for a lot of years. There is also no doubt about the sales tax. Another one that we had not mentioned is minimum wage. But one thing that I think is going to become very important is TRIP.

I wonder if, when we are doing our prebudget consultations, we would like to have these people back with some kind of presentation for the committee that might sort of balance, tell us what the industry sees from a government-wide point of view, with a special emphasis on TRIP. It seems to me that is a good program, and in view of what we have taken out of this industry, something should be put back in. I think TRIP is as good a mechanism as there is. If you think I am right, you might invite them back some time a little later.

Mr. Chairman: Yes, Mr. McCague, I was thinking when we were going through the presentation that it would be valuable for the purpose of the budget in any event.

Mr. Gravel, there are plans for another budget. These things seem to come every year and there are plans for another one, probably in April or May of this year. This committee, as soon as it is finished with this bill, will be dealing with the input into that budget. We will be reporting to the Treasurer (Mr. R. F. Nixon), likely some time in late February, as to what we think should be in the budget. It presumably has some influence on him.

We would be very grateful if you would be prepared to give us a presentation on what you think should go into the next budget. I realize this one is, as is proper, a criticism of what was in the last budget and the tax bills that resulted from it. But it might particularly address some of the things Mr. McCague has raised right now.

Mr. Gravel: We would be happy to return and make that presentation with particular emphasis on TRIP, either myself or another official from the Tourism Ontario federation. There is a wealth of verifiable financial and statistical material on the great value of TRIP and the almost minimal cost to the taxpayer as well. Of particular concern—and I am very glad you brought that up—is the fact that TRIP is chronically underfunded in terms of its loan guarantees; for example, the 1988 TRIP ran out of money in the early spring of 1988.

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Mr. Chairman: If it turns out that you are not ideally happy with the results of Bill 122 when it finally passes, you may wish to address some of the matters such as the high gasoline tax once again in that presentation, just to emphasize them.

Mr. Haggerty: One of my questions, on the matter of TRIP, was raised by my colleague George McCague. You indicated that last year was the last year it will be in place?

Mr. Gravel: Officially, yes. It sunsetted on December 31, 1988. We have written the ministers responsible, of course, including the Premier (Mr. Peterson). Our indication is that support in the Premier's office and in the office of the Treasurer is lukewarm regarding reinstituting TRIP. Our own Minister of Tourism and Recreation (Mr. O'Neil) is working very hard to try to fan the flames of TRIP and this industry is doing everything it can to support that.

Mr. Haggerty: The program has turned the tourist industry around to a certain degree, has it not?

Mr. Gravel: To a great degree.

Mr. Haggerty: I had some difficulty in following your comments in regard to the slowdown in the tourist sector in 1988. I happen to represent an area in the Niagara region and I think we have perhaps one of the largest tourist attractions, Sherkston Beaches. With a change in the weather conditions, the climate was most favourable for tourists, people wanting access to the beaches. On a couple of weekends it was estimated in the papers that they had as many as 65,000 or 70,000 people. That is almost triple or double what they normally had in the past.

I would say that industry in particular should have had a good year. There was no reason for it not to. I think the same thing applies across Ontario. I always spend a little bit of time up in Port Elgin. The municipality has a nice park along the lakefront up there. That place was jammed; you could not get any vacancy for parking a trailer of any type or size in the trailer park there.

Mr. Gravel: It is a good point about the beaches. In terms of the accommodation sector in the Niagara region, if you want to speak specifically about the Niagara region, we have a number of directors from that region. Unfortunately, they left the board in November; we still have one on the board, but the other one retired from the board in November. Based on their comments and also on the travel statistics from the Ministry of Tourism and Recreation, a lot of the people were day trippers. They, particularly inbound US traffic, were spending the day and then going back, whereas in previous years they stayed over, which greatly impacted accommodation and restaurant business.

Mr. Haggerty: You could be right. There are a number of day users in the Sherkston Beaches area. They are a short distance, 12 to 15 miles, from Buffalo; you are tapping quite a bit of New York state. I have never heard any of them complain about the excellent service they get in the area. With regard to accommodation, I think you have hit on it very well: why is it that on the American side you can get hotel accommodation, even down south, for half the cost you can in Ontario? Some of them want to come over here and spend the day in Toronto. You are looking at $175 a room per night. Why is it so high? Do not blame it on the exchange of the dollar, because it is not that. They all belong to the same chain of hotels.

Mr. Gravel: No, it is not that. There are a number of factors. First of all, one has to compare apples to apples. A motel accommodation, for example, outside of Toronto certainly cannot be compared to a Toronto large-scale hotel. You would have to compare Toronto to cities such as New York and Chicago, in terms of a large urban centre.

Mr. Haggerty: Even in Niagara Falls, the room rates are twice as high there.

Mr. Gravel: That is right. Dealing with, let's say, Niagara Falls motels and Niagara Falls, United States, motels, which are approximately half the price of those on the Canadian side, there are a number of factors involved, such as the higher cost of labour and the higher cost of doing business in terms of taxation, as well as other overhead charges. It is just much more expensive to do business in this country than it is across the border.

We have a very commendable but also a very expensive social and health service infrastructure to support, all of which must be paid for by businesses. All of that works into a motel's overhead. I would not want to leave anyone with the impression that just because you are on the Canadian side and your prices are double, therefore a motel owner or operator is pocketing twice as much profit as his American counterpart. That is certainly not the case at all. It is very much a hand-to-mouth, slim profit margin business.

Mr. Haggerty: The same thing would apply to the United States. Let's take health care services. If you are vacationing down in the state of Florida, the capital outlay there for hospitals is the same as it is here in

Ontario. In my particular area, I know that the treatment provided to American visitors in local hospitals is just as good as it is there, and maybe better. But the facilities are here, so regardless of which way you look at it, there is a cost borne by the taxpayers through some form of taxation.

You talked about the gasoline tax. I very seldom hear about any Canadians who travel the American highways—I am talking about the superhighways going down to Florida, where they have to throw in a token every so many miles—who are grateful to use their roads; in other words, the tolls on the roads. That is one of the reasons there is a different financial structure for building roads on the American side compared to what it is here. Over there it is done on a debenture issue. That is why you pay the tolls on these superhighways. Actually, there is no debt shown to the state government because really it is a user-pay fee.

But here you may see the increase in gasoline tax. That is one of the reasons—if you want the roads to be maintained to a standard that I think is perhaps much better than in some places in the United States—you have to pay taxes. Your industry gets a benefit out of that.

Mr. Gravel: There is no denying that.

Mr. Haggerty: We talked about the sales tax and you made some comments there, but if I can recall, on the American side the municipalities, particularly with the county form of government on the American side, still have access to a municipal sales tax. That is how they generate additional revenue. But you do not see that the state government is raising the money there. It is done at a local level.

Sometimes I wish that sales tax remained at the level of local municipalities. I think some of us could be well off today, but we do it here. It is a different way that we are sharing the wealth. Some of the revenue from the sales tax is spread out to other communities that are less fortunate. They do not have all the banking towers downtown that you see in the city of Toronto or large industrial complexes located in one municipality, which can carry quite a bit of the freight.

I am looking at this. Somebody gave us some background information here. It is from J. K. Riley, Oakville, Ontario. It is addressed to the clerk. I think it talks about the leader of the third party. He said he believed there is an alternative. "Before the 1988 budget was introduced, Andy Brandt called on the government to: freeze existing tax rates."

If you freeze existing tax rates, I do not know how you are going to get the money to pay for the tourism redevelopment incentive program. Somewhere along the line, some of that money has to come out of the taxpayers.

"Institute responsible management control in government expenditures." That is an area that was questioned when I was in opposition, too. There is maybe a problem in that area.

"Stop excessive spending by government ministers and their personal staffs." I have heard that so many times.

Then he says, "Limit the growth of the civil service."

When you get into the area of the one per cent increase in sales tax, as I understand it, it will not even cover the additional cost of the health care

services that are required in Ontario. We are debating it in the chamber this afternoon, that we are not spending enough money in this area, yet we have this official of the third party saying, "Freeze existing tax rates."

Mr. Chairman: Mr. Haggerty is referring to another document. We received a letter from a Mr. Riley, which has attached to it a flier that Mr. Brandt was distributing. I do not think he is attributing all these outrageous criticisms to you.

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Mr. Haggerty: Sometimes you can have a little bit of political fun, but what my main comments are concerned about is that everybody wants something. You can say, "Well, yes, this is great," but where does the buck stop?

The tourism redevelopment incentive program is another matter. It creates jobs; that is the purpose. But someplace along the line you have to go to the Treasurer and he is the man who has to crank up the tax collectors to get more money.

Mr. Gravel: In partial response to that, one of the points that this industry makes and has made for some years now, I believe, is that we do recognize the importance and value of the spending Ontario makes on social services, health and education. However, we also recognize that it has to come out of somewhere.

Please be careful that the somewhere it comes out of is not mortally wounded, because, particularly in terms of the tourism and hospitality industry, this is a sector that is a revenue producer. This is a sector that pumps money back into the economy rather than just taking, as in education, health and social services. The revenue producers also have to have care and consideration so that the province has the money to pay the bills for the nonrevenue-producing sectors.

Mr. Chairman: You are suggesting, certainly in this, that part of the reason 1988 was a soft year was these taxes. Are you suggesting that if these taxes had not been there, our revenue would have been as much or more because of the more buoyant tourist economy?

Mr. Gravel: That is a loaded question. I think it gets into blue-skying. I could easily say yes but would not have anything to back it up. I could easily say no and also not have anything to back it up. It is a matter of conjecture. Certainly, the taxation situation did not help. The soft year, as I noted, had many other causes but the taxation situation did not help and that point is certainly a valid one, I believe.

Mr. Haggerty: For example, the SkyDome is going to bring in revenue to the province. I am sure it is going to bring in additional tourists, but again it had to come with a price tag on it and some of it had to come out of the provincial coffers.

The question is, where do we establish our priorities? As we look at demographics--we have not had a chance to look at this--the population of Ontario has increased substantially and much of it is because we get people coming here now because the economy of Ontario is well above that of the rest of the provinces throughout Canada and more people are coming back. As they come back, more services are required. In other words, more hospitals will be used. One can go through the whole chain of events.

There may eventually be a spinoff for the tourist sector in this. People will perhaps have some leisure time and they may get a weekend away someplace to a small tourist establishment. But when the population increases, it means that the government has to go out and find capital to build additions to hospitals or equipment that has to go in the hospitals. Just look at the money that has gone into schools.

Mr. Chairman: I think Mr. Gravel gets the message, Mr. Haggerty. Your message is that if we cut back on taxes, we have to find the money somewhere else.

Mr. Haggerty: You have to find it someplace else. There is just no end to it.

Mr. Campbell: First of all, when you mention comparable rates and accommodation on the Canadian and US sides, could you give us dollar figures as to what the average costs would be, let us say, in Niagara Falls—since we were talking about that—versus Niagara Falls, New York?

Mr. Gravel: It depends on the season and it also depends on the time of day.

Mr. Campbell: Let's take a mean average.

Mr. Gravel: An average Niagara Falls, Ontario, motel at this time of year—which is not high season and it is not the high crunch, summer boom season—could probably be had for approximately $40 a night.

Mr. Haggerty: You are way off.

Mr. Gravel: Higher or lower?

Mr. Haggerty: Too low, I think.

Mr. Chairman: Up here or in New York?

Mr. Gravel: Here, in Ontario. I mean motels, not a hotel like the Sheraton Foxhead Inn or whatever, but one of the motels on Lundy's Lane, for example.

Mr. Haggerty: You may be outside, almost to Thorold or someplace like that, and you might pick up something like that.

Mr. Gravel: Maybe he is the guy who is on the phone to me all the time. You know what they say about the squeaky wheel, but approximately $40 to $50. Across the border, I am given to understand, it is roughly half that.

Mr. Campbell: Twenty bucks per night?

Mr. Gravel: From $20 to $25.

Mr. Campbell: Then you take into account the exchange; say, 10 per cent.

Mr. Gravel: Yes.

Mr. Campbell: Okay. I guess my second question following that is, what level of support does New York state give, comparable to Ontario—you

must have some idea—for tourism promotion, the kiosks, the information booths, all of the stuff that we do in Ontario? Do you have any information on that?

Mr. Gravel: Yes. I do not have it here in front of me, but off the top of my head, granted that New York is considerably larger than Ontario in terms of its economic budget and so forth, and perhaps it is not even a fair comparison, I do know that the tourism marketing budget there is considerably higher than this province's marketing budget. I think it is equal to what Ontario and Manitoba spend together.

Mr. Campbell: Okay, I was not asking for a mean dollar figure; I was asking for percentages of total budget. That is probably a fairer comparison. You are dealing with New York state; the only jurisdiction I happen to know about is California. There is no real comparison between California and Ontario because of the distance.

What I was trying to establish was the percentage of budget in New York state versus Ontario. If you were to answer, for example, that New York state's was lower, you would probably have the answer as to why some of the taxes do not go in as a percentage of the budget, I mean, talking in dollar figures. As well, I know some jurisdictions in the United States spend considerably less percentagewise than Ontario does on tourism promotion, accommodation, those kinds of things, as we do. Would you care to comment on that?

Mr. Gravel: I do not have their percentage of budget figures and do not know that I have ever seen that type of information. It is certainly an extremely interesting angle and one that I intend to pursue. I can get the percentage of budget figures for Ontario, of course. That is a matter of record. In talking with several people in the Ministry of Tourism and Recreation, I know that they were trying to ascertain percentage of budget figures for key American states, particularly along the border areas. This was last spring. I never saw any results of that, so I do not know whether they were successful. It would certainly be a valid piece of research evidence to have.

Mr. Campbell: I just make the point that, having lived in some American jurisdictions, and this information is quite a bit out of date, but they reported at that time certainly that compared to Ontario they were spending a smaller percentage of budget than Ontario was. That may account for a bit of the stuff that we do and why some of the costs of doing business in Ontario are higher, to use your words. I am not convinced, given all of the things that we have, that it is.

I am conscious of the time and I want to give my colleague ample opportunity to ask his questions, but I do have one other question. As I understand it, you represent the Ontario motels, motor inns and motor hotels. Does that include the budget operations that are currently the vogue in the new operations?

Mr. Gravel: No, definitely not. The so-called budget chains—to mention just two, Journey's End and Days Inn—are not in membership with the association. Our members are, as I said earlier, the true small business entrepreneurs. They are owned by the proprietors. In very few cases, these same proprietors may own two or three motels, but they are not part of the large budget chains.

Mr. Campbell: Would you say, though, that the large budget chains are cutting into the motel market somewhat in communities? They seem to be developing at a faster rate than the motels, as we have known traditional motels, motor inns, that kind of thing.

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Mr. Gravel: I would definitely say that. Every time a budget opens up in a community that was traditionally served by independently owned and operated members, their occupancy rate is cut dramatically and you can trace it almost to the day that the budget opened its doors. That gets into a whole other discussion as to how the budgets are funded and how they can afford to offer rooms for $32.95 or whatever. Many of my members are able to match that, despite carrying a greater load of amenities such as food service, pools, playgrounds, the lawns and so on. The budgets traditionally do not carry a full range of amenities. It is basically sleeping accommodation.

Mr. Campbell: Okay. Might I suggest then that maybe one of the major reasons why, in 1988, the operations you represent did in fact have a softer year than other years is basically the differing offerings of these other operations and not necessarily higher taxes or higher costs of doing business?

Mr. Gravel: The budget chains did not just spring up in 1988. They started to make their impact in the early 1980s. It is something that the independent motel industry has been adjusting to and working with and around since the early 1980s. If the industry, all of a sudden, started going soft from the commencement of the introduction of these budget chains, that is certainly a valid point, but they have been around now for over five years. Our people are working with them and around them, coping in terms of that business pressure.

I do not have figures of how the budgets did in 1988, because they are not in membership. However, I do know that one particular budget chain had a good year in 1988. It was not soft by any means. That was Journey's End. Again, they have been around since the early 1980s, so it is probably a factor in the softness of the motel industry, but they were also around in 1987 and we had a good year in 1987. They were around in 1986 and we had a good year in 1986, as well. There are more of them now, yes, that is true.

Mr. Campbell: That was going to be my next point. Certainly, in my community of Sudbury in the past two years we have had probably each chain being represented, plus one independent or northern chain, if you will, that has come up. As I recall, late 1986 or early 1987 was its first year of operation. Given the full, complete year of operation and the general lag time that it takes for acceptance of these operations to be fully utilized, I am wondering if that is in fact a more major reason than you are giving it credit for.

I am not denigrating the fact that you are making the comment you are. I am just pointing out to you that I think there are a number of other reasons. A significant one is the change in emphasis, because all of the new construction is going into these budgets rather than new independent motel operations.

Mr. Gravel: That is true. Getting back to the tourist redevelopment incentive program, TRIP is a major factor in increasing construction and renovation for the independently owned property. The budget chains, Journey's End, for example, do not utilize TRIP. They utilize prospectus financing and

so on, which our people cannot because they are not part of a huge corporate chain. So TRIP becomes even more vital for the independent business person.

Mr. Campbell: Thank you, Mr. Chairman. If we have any time left, I will continue.

Mr. McCague: In defence of Motels Ontario, you may have studies around but I think you will find, contrary to what a lot of people think, that the motel and hotel rates in Canada and the United States are very close together. The perception a lot of Canadians have of hotel rates in the United States is the trip they make from here to Florida each winter. If you go to one of the major cities, anything that would parallel Toronto, I believe you will find that the hotel rates are higher there than they are here.

If you want to get a good rate on a motel, take a trip and see several of the members of Motels Ontario and you will find that they have comparable rates to what I-75 has.

On the point that Mr. Haggerty made, that he saw a lot of people on the beaches, I have a lot of beach in my riding, Collingwood and so forth. The problem with a lot of people on the beaches is they probably fill up with gasoline in Toronto, pack their lunch and go up and leave a little of the paper behind and drive home again. It is really not the kind of barometer, as my people tell me, that it might appear to be. Those are just the two points that I wanted to make. Thank you for your presentation.

Mr. Chairman: Are there any other questions? Thank you very much. We appreciate your presentation.

Mr. Gravel: Thank you, Mr. Chairman, and ladies and gentlemen.

Mr. Chairman: Perhaps you can make some arrangements with Mr. Decker to see us again, if you so wish.

Mr. Gravel: For sure. Thank you very much.

Mr. Chairman: We have made contact with the Ontario Cable Telecommunications Association people. It is their preference to come here and take their chances tomorrow. If we cannot hear them tomorrow, they will raise that problem with us at that time.

Mr. McCague: You could speak to your House leader and see if he can keep a little better order tomorrow.

The other thing is that it is nice to have the minister here. As I pointed out to him several times with these bills that he has to do on behalf of the Treasurer, it is kind of a dirty trick the Treasurer pulls each year to get him to do that.

Hon. Mr. Grandmaître: Thank you, Mr. McCague.

Mr. McCague: I do really apologize to him for letting him off so lightly today.

Hon. Mr. Grandmaître: You are quite welcome, George. I appreciate that. Somebody has to do it.

The committee adjourned at 5:57 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

RETAIL SALES TAX AMENDMENT ACT

WEDNESDAY, JANUARY 11, 1989

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
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Cleary, John C. (Cornwall L)
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Kozyra, Taras B. (Port Arthur L)
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McCague, George R. (Simcoe West PC)
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Pope, Alan W. (Cochrane South PC)

Substitutions:
Laughren, Floyd (Nickel Belt NDP) for Mr. Morin-Strom
Nixon, J. Bradford (York Mills L) for Mr. Pelissero

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service
Tucker, Sidney, Deputy Senior Legislative Counsel

Witnesses:

From the Ontario Cable Telecommunications Association:
Weckers, Walter, President; Senior Vice-President, CUC Broadcasting Ltd.
Bruder, Terry, Chairperson, Sales Tax Committee; Vice-President, Administration, Ottawa Cablevision Ltd.
Moody, Richard, Executive Director

From the Ministry of Revenue:
Grandmaître, Hon. Bernard C., Minister of Revenue (Ottawa East L)
Williams, Burke, Director, Retail Sales Tax Branch
Russell, T. M., Deputy Minister

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday January 11, 1989

The committee met at 3:30 p.m. in room 228.

RETAIL SALES TAX AMENDMENT ACT
(continued)

Consideration of Bill 122, An Act to amend the Retail Sales Tax Act.

Mr. Chairman: I see a quorum and I think we can get started. We have with us the Ontario Cable Telecommunications Association. Perhaps if the representatives will take seats in front of the committee and get settled, we can start as quickly as possible. We have in front of us their submission and hopefully they will lead us through it. We have Walter Weckers, Terry Bruder who has come from Ottawa and Richard Moody.

Before we start, I remind committee members that we have gladly agreed to host the visiting committee, which sounds like a similar committee, of Italian parliamentarians who will be visiting here Monday next at 11 a.m. in room 112, which is the room opposite the media studio on the main floor.

Mr. Haggerty: The old caucus room.

Mr. Chairman: What was once a Liberal caucus room, I believe.

Hon. Mr. Grandmaître: That is when we were a small group.

Mr. Chairman: Perhaps you could make a note of that at the moment and let Mr. Decker know who all will be attending. Many members already have.

Welcome to our committee. Perhaps you could lead us through your presentation.

ONTARIO CABLE TELECOMMUNICATIONS ASSOCIATION

Mr. Weckers: My name is Walter Weckers. I am the president of the Ontario Cable Telecommunications Association and I also serve as a senior vice-president of CUC Broadcasting Ltd. With me today are Terry Bruder, who is the chairperson of OCTA's sales tax committee and a vice-president of administration for Ottawa Cablevision Ltd., and Richard Moody, executive director of OCTA.

We are grateful to be before the committee today for the opportunity to express our opinions on Bill 122 on behalf of the 135 members of our association.

Mrs. Bruder and her committee have in the past several years had extensive communications with federal as well as provincial staff and have aided our members in developing an OCTA sales tax committee booklet, which was distributed about 10 months ago, in April of last year.

We are not appearing before you today to challenge the retail sales tax or to challenge the increase from seven per cent to eight per cent. Those are

well-established facts in our minds and we live with them, but we do have seven specific recommendations we would like you to take into consideration.

None of these, perhaps with one exception, is of a direct financial benefit to the member companies of OCTA, but they all represent in some small way an improvement of our service to our subscribers, the removal of some nuisances, if you wish, some annoyance to our subscribers when they see their monthly cable statements. From that perspective, I believe it would be an interesting improvement in our service if some of these could be adopted by your committee and recommended to the Legislature.

I will ask Mrs. Bruder to review the points contained in our written submission, which you have before you, and at the end of each of these I will briefly summarize it as best I can. Of course, we are prepared to answer any questions from you at any time.

Mrs. Bruder: While we understand that the purpose of the bill and thus the call for comments is relative to the provision of the collection of retail sales tax at the rate of eight per cent, we have taken the liberty of expanding our commentary to include other taxation matters that are of deep concern to our industry.

The first item we would like to address is a fair value amendment to include all the taxes imposed by the Excise Tax Act, clause (ba) of paragraph 4 of section 1 of the act, as set out in section 1 of Bill 122.

In April 1983, the federal government introduced the telecommunication programming services tax. Its stated purpose was to provide funding for grants to private production companies and independent producers. It was labelled a temporary tax, passed as an amendment to the Excise Tax Act. History repeated itself in 1988 with the introduction of the telecommunication services tax and Ontario again became the recipient of some additional tax dollars.

The question arises what the position of the Ontario government would have been if the funding had been achieved through a per subscriber fee rather than an ad valorem tax, and on what basis the justification can be made that a funding levy increases the fair value of the service.

It is interesting to note that the question is being asked by many subscribers, as evidenced by the calls we receive from MPPs. The average taxpayer is concerned that the tax rate on cable services has escalated in a dramatic fashion, from July 1983 at 13.42 per cent to January 1986 at 14.49 per cent, April 1986 at 15.56 per cent, January 1988 at 17.7 per cent, to May 1988 at 18.8 per cent. That is both the telecommunications tax and the provincial sales tax added to the value of that.

Mr. Chairman: May I interrupt you there? I am curious about the comment about the calls you have received from MPPs.

Mrs. Bruder: We have received a few calls from MPPs who asked us specifically on what basis we were levying provincial sales tax on the federal telecommunications tax.

Mr. Chairman: Because of their own bills? Very good.

Mrs. Bruder: No, because of the constituents' bills. They were being

asked the question and really did not have the answer. It is obviously an area of concern.

Mr. Chairman: Yes.

Mrs. Bruder: Our subscribers question this tax on tax and so does our industry.

Mr. Weckers: Basically, the one specific recommendation we would like you to consider is excluding the federal tax of 10 per cent, if I can abbreviate the long name to the federal tax, from the amount on which we would charge the retail sales tax.

Mrs. Bruder: The second point we would like to deal with is the higher rate of tax payable on lease and option payments under subsection 2(6a) of the act, as set out in subsection 2(4) of the bill.

The introduction of the above amendment has created a multitude of administrative and public relations problems for the cable industry. Unlike standard retail sales, cable service is provided and billed on a monthly, bimonthly, quarterly, semi-annual or annual basis. The agreements we have with our customers reflect the aforementioned, and in fact invoices are tendered and paid in advance. Our customers purchase and pay for subscriptions to our service for a period of time. It is an expensive and time-consuming task to prepare computer program changes, process these changes, communicate with our customers and then collect and remit the additional tax.

A change in tax rate involves a certain amount of administrative work and this can be accomplished within reasonable time frames. A retroactive tax, which is what the above clause created, carries a cost of approximately $1 per subscriber. Every customer requires a billing adjustment and/or explanation. This represented a $2.5 million expenditure for our industry, with no hope of recovery.

Our request for special consideration, on the basis that the cable industry has long-term agreements with our customers, was denied. The explanation given was that other telecommunications companies were expected to comply and that their problems were identical. This in fact is not a valid comparison. Telephone companies do not have multi-month agreements with their subscribers. Their billings are exclusively on a monthly basis.

It is an unhappy measure of the province's position wherein the considerable financial impact of the Bill 122 amendment was not discussed with affected industries prior to its implementation.

Mr. Weckers: In essence, we would like you to allow the cable industry in future, when there might be further increases or changes to the tax--maybe downward, who knows--some reasonable amount of time. It could be as little as 30 days, more reasonably perhaps 60 days, so that billing procedures, instructions to computers and the like can be given, and we do not find ourselves in a position--as happened last year, for example--where on May 1, in essence, the word came down that the change was in effect. By that time the bills for May had gone out, so we had to go back in June and collect a very small amount, a few pennies. But the customer becomes thoroughly confused, annoyed and sometimes upset with those kinds of activities.

We would like to avoid that. It is not a tremendous amount of money as

far as the Treasury of Ontario is concerned. It is quite an imposition on the industry and the subscribers.

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The other thing might be—I am not sure exactly how we might be able to phrase this—to offer some sort of rate protection where someone has contracted with us by virtue of paying for one year in advance. We find ourselves now in the position that this payment does not quite make it to the very end, because of course we have to remit taxes, and therefore we have to go back and, again, upset the customer by asking for a very small amount of money and explain it.

So we are looking for the dual solution of some reasonable time frame before we proceed with the implementation and some rate protection for those subscribers who have elected to pay for their services in advance.

Mrs. Bruder: I should point out that before the introduction of this new bill that was, in effect, the way taxation treated changes. The Ministry of Revenue advised us it would treat changes that way. In fact, I issued this tax guide in April 1988. That was the way it was laid out. This is an approved guide by the Oshawa office, by the way. In May, the ministry contacted me and said, "New rule, hot off the press." The ink was not even dry.

The next item we would like to deal with is the impact of tax increases on small and distant communities. Of the Ontario Cable Telecommunications Association's 135 member companies, representing some 2.5 million Ontario customers, 25 per cent are licensed to serve nonurban communities. The greatest impact of a percentage-based tax increase is felt in these rural and remote communities where cable rates are generally higher due to the substantially greater cost of providing service.

Ontario residents residing in major urban areas generally pay anywhere from $8 to $12 monthly for cable service. On the other hand, Ontarians living in smaller and more distant communities pay rates ranging from $18 to $24 per month. Premium television services are generally available for a fee over and above this basic service rate.

OCTA's concern centres on the inequity of the tax and the fact that the burden is greater in those communities where cable is an essential information and entertainment source. If there must be a tax levied on our service, then a flat rate tax or maximum tax should be introduced in order to equalize subscribers' contributions, thus eliminating the penalty imposed on Ontarians who live in rural and remote areas.

Mr. Weckers: It is interesting to note that the government of Ontario has successfully implemented television extension in northern Ontario, with substantial tax dollars being allocated to that. The bottom line of that particular program is to subsidize the construction of cable television systems in remote communities. By virtue of the fact that they are remote and very small and so forth, the costs to establish them on a per capita basis or a per household basis is very high. Without that kind of support from the government, small systems in those communities would not have been established.

We have on the one hand a government that recognizes that in some communities it is essential this kind of assistance be given, yet those people who then subscribe to the service, where it happens to cost them $20 or so for the basic service, find themselves subject to the eight per cent tax, whereas

the people in southern Ontario, where the rates are in the area of $10, $11 or $12, are paying obviously a smaller amount of money.

Our suggestion is that perhaps it could be argued that an average be established, so that for anything that costs more than $15 for the basic service, there would be no charge on that excess. We are not suggesting, by the way, that the charge on discretionary services people may pay for, such as pay television, be eliminated as well. We are not arguing that at all.

The second consideration you may want to look at is to exempt very small systems, perhaps those with fewer than 1,000 subscribers, from the collection of the sales tax. In essence, you will again find that most of the communities in northern Ontario where it has been been recently established would therefore escape the tax. There might also be some in southern Ontario that are very small and would be exempt at that point in time. That is not unlike an action that was taken by the government of Nova Scotia in much the same vein, with the same objective.

Those are the two recommendations we would like you to take into consideration.

Mr. Chairman: Would there be areas in southern Ontario as well?

Mr. Weckers: Yes.

Mr. Chairman: Whereabouts?

Mr. Weckers: About two years ago--it is longer than that now--there were a number of very small cable systems established in southern Ontario using the services of the Canadian Satellite Communications Inc. to receive remote signals and so forth. Relative to the total, very few subscribers are involved in that, and they are typically people who live quite a distance away from urban communities.

Mrs. Bruder: There is a large block of them in eastern Ontario as well, in the area around Cornwall. In that very eastern portion of Ontario, there are some also.

Hon. Mr. Grandmaître: How many subscribers would these smaller companies have? Is it something like 50?

Mr. Weckers: Yes, they are established in communities with as few as 75 or 100 households. They are very, very small.

The other irony is that for them to receive their signals, they use the services of Cancom and that, by definition, increases their operating costs, because they pay as much as $7 per month to receive and distribute the Detroit signals. That is a cost that is not being incurred by cable systems in southern Ontario, because they receive everything over the air directly via Buffalo or Detroit, as the case may be.

There are a number of strikes against cable systems in those small communities, on which, again, tax is now levied and it increases the cost.

Mr. Chairman: You have inspired some more questions, if you are willing to take them at this point.

Mr. Haggerty: Are there any other alternatives to cable, though, in

these areas that are being supplied by cable television? Do they have access to the normal TV channels?

Mr. Weckers: In most of these communities, they are limited to two services, typically CBC and CTV service. Often TVOntario is not available. In fact, the television extension in northern Ontario—TENO—program was designed to help extend the services of TVO. They are typically receiving only the two off-air channels from a nearby transmitter.

The other solution for them is to purchase a satellite reception dish and contract with Cancom on a direct basis, as an individual, with Cancom. Cancom has a direct-to-the-home service, if you wish; that is what they call that. They have had a tremendously poor response in selling that, because the cost is quite high. Then the people have to buy equipment to the tune of $1,500 or $2,000, plus they will have then to—

Mr. Haggerty: They could use videocassette recorders too, could they not?

Mr. Weckers: They can have VCRs, and in most of these small communities or nearby there are video stores, of course. But we all know what that means; it means that American movies are being distributed. I do not think you see very many Canadian programs or informational programs being distributed from a video store. From that point of view, they have that particular alternative, but it is a limited one; certainly it gives no support whatsoever to the Canadian broadcasting system.

On balance, the viability of the cable system—in other words, the demand for a cable system—is there. It is the cost of establishing it that is often so high that no one can really make it economically viable. The TENO program has contributed funds that make it possible then to establish them and make them viable, but barely so.

Mr. Haggerty: You want to establish a market, though, in Ontario, perhaps even throughout Canada on cable television, but there must be a responsibility from the suppliers to supply the goods, you might say, at a reasonable cost.

If Ontario Hydro were taking the approach that you people are taking, then the people in northern Ontario and central Ontario away from the generating plants would be paying higher rates, but there is a uniform rate across the province.

For example, if I buy an automobile and I have to pay freight, I am 85 or 90 miles from the manufacturer, but I pay the same rate for freight as what they would out in Vancouver. Bell Telephone is another one. There is such a thing as mileage and so on, but they are even doing away with that in the communication system.

Is there not some way you can work a better rate than what you have there? The spread is quite hefty in this particular area.

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Mr. Weckers: I cannot really give you a solution, because to be able to talk meaningfully about cross-subsidization, you have then to look at ownership. We have an industry in Ontario that is quite diverse as far as ownership is concerned. It is not a monolithic industry where you have one or

two large companies, although it often looks that way when you read the newspaper. We have numerous very small members who have established, in their local communities, their places of business. They have extended the service as far as it can be extended.

You are now dealing with the economics of the industry to a large degree, and in the absence of one mammoth company that says it will cross-subsidize, and in the absence of a federal regulator that openly admits cross-subsidization is a good thing and should be encouraged, we would not be able to pursue the solution you are making reference to.

It is a good theoretical solution that may come about when there is more consolidation in the industry, but I cannot predict when it would be realistic to say we were at that point. It could be five years from now; it could be never.

Mr. Haggerty: You are just going to go where the cream is and extend your services in that area without providing——

Mr. Weckers: No, I——

Mr. Haggerty: I should not get into it this deeply, but you are talking about the tax structure.

Mr. Weckers: We are talking about the tax structure. I do not think it is fair to say that we are creaming the market.

Mr. Haggerty: If you get into highly urbanized areas, you are.

Mr. Weckers: We have been established in urban markets, obviously, because there was a demand for the service. Beyond that, the industry, and my company in particular, have also made substantial investments to transport signals into northern Ontario, of their own free will and with economic success.

What is happening is that in very small communities it becomes basically unaffordable for anyone to make the investment and have a reasonable return. Because of that realization, the TENO program was established to further the extension of services in some of those remote communities. More than 100 have been established as a result of that program.

What we are saying is there is a group of people who, by definition, are now paying a relatively high price for cable, for which the government has already decided that a capital grant is appropriate. What we are saying is that in a number of these circumstances there should be some control, if you wish, on the retail sales tax so that the government does not give with one hand and take away with the other hand. It is a bit of a contradiction. That is the observation we are making in this case.

Mr. Haggerty: Do you pay a similar tax as Bell Canada does for your cable to local municipalities? How does that work?

Mr. Weckers: We have agreements with the local municipalities. Under federal jurisdiction, we are not required to pay rental per se for those rights of way. We do pay normal and reasonable administrative costs for the supervision of those agreements. For example, when we establish a plant somewhere, and the local municipality has to review the plans before it is all constructed on poles or underground, they have a reasonable charge for those kinds of administrative costs.

I should mention here, by the way, that because of the apparent ease with which cable now can be taxed, the federal government has a tax and increases the tax; the provincial government has a tax and increases the tax. We have very serious concerns now because some municipalities are seriously looking at dramatically increasing charges to cable companies, which would have a devastating effect on the cost of the service and which would have to be passed on.

We are beginning to find ourselves as a bit of a cash cow here saying the customer cannot pay more. In the case of those small communities where the rates are high, we are trying to put some constraint on that for their benefit.

I should mention that the indirect benefit might be that we might have a few more customers as a result of rate moderation, which of course would also be of benefit to the provincial government with the retail sales tax. But, in essence, it is to try to minimize the total bill that people who live up there would pay.

Mr. Haggerty: You are saying that the municipality is moving in this area, then, for tax reasons, as a utility—the same as Bell Telephone or the natural gas industry.

Mr. Weckers: We should be treated the same, but we see some movement that maybe someone is trying to get a bit more than that. We will resist that, of course.

Mr. Moody: During the conversation, I was struck by the fact that if we look at this line as being an extension of a cable line, it has to end somewhere. As we reach this point, which is the viable end of the cable line in providing service to rural communities and to farmers along the route, across the road is a man with a satellite dish on his farm property, who picks up Cancom signals, and can pick up what he can pick up off the air. The man with cable pays tax on the service; the man with the dish does not.

If we are talking about level playing fields, I guess that is our proposition: Cable is willing to meet competition, provided the field is not tilted. The man receiving Cancom signals on one side of the street pays no tax, and the man at the end of the cable line, on the other, pays tax on a tax—sales tax.

Mr. Kozyra: Mr. Haggerty touched on a good portion of my question. I am from a fairly northern community, Thunder Bay, although it has a certain population density. You have pointed out here what I call the tyranny of distance, long distance, and the tyranny of a not-dense population in the north that we suffer from, and then we have the inequities. As Mr. Haggerty pointed out, Hydro is not one of them; but there is an inequity in the different rates for Hydro as well.

I am wondering, on the basis of what you said, because you are an association—but there are many members of that—and also perhaps from a business point of view, are you unable or unwilling to look at this kind of compensation type of rate or whatever? Or is it only through the ability of government to legislate that you would be able to set aside a portion that could level these things?

I would think from the numbers and the density of southern Ontario if that $12 were increased to $12.50, because of the large population paying that, it would level everything out. Are you unable to do that? Do you need government legislation to do it?

Mr. Weckers: I think, in essence, we are looking at an industry that is still based on enterprise. You are looking at ownership and you are looking at reasonable profits being generated from that. It is a licensed industry. In other words, you obtain a franchise, a licence to do business in a certain area from the federal regulator. For the cross-subsidization to work between two profit-making entities, it is very difficult, as you can well imagine.

One company that does business in Thunder Bay giving a portion of its revenues—and for the subscribers in those towns to then give openly—to another company that does business in another town poses some very direct and very difficult questions that I do not think we can answer very quickly. It is compounded by the fact that the federal regulator, even within the company that owns more than one licence, does not permit cross-subsidization.

Our company, for example, does business in Scarborough and does business in Whitney. In Scarborough we have a rate of $11-plus; in Whitney we have a rate of well over $20. At this point in time, we cannot permit a charge in Scarborough that is earmarked—even though it all accrues to the same company—to support the extension of service in Whitney at the lower cost. It is not done.

In the past, before there were some rate mechanism changes, we often made the argument that perhaps we should charge a little bit more in Scarborough so that we could recoup some of the large costs we were incurring to extend service in rural Ontario. We were repeatedly denied that opportunity.

So we find ourselves having a difficulty, first, because of the varied ownership interests in the industry and, second, because to date we cannot truly cross-subsidize between licences.

Mr. Kozyra: I suppose on the other side we should be glad that in such an area as housing, Toronto people are not asking the north to subsidize their housing costs.

1600

Mr. Moody: If I could have a moment, this morning I called the operator who provides service to Red Lake; his rate is $24.95. We have zone meetings through the year, and I recall him telling me at a zone meeting up in northern Ontario—I happen to live in Metropolitan Toronto—that a serviceman serving the cable company that provides my service can receive a call at the extreme ends, maybe three quarters of an hour away. For the owner of the system that I am speaking of, it means a seven-hour drive if he has a service call at one end of the system. Then he is told there is a faulty picture at the other end of the system.

The communities served by that small owner can be seven hours apart. That is a very costly service he is providing for someone who says, "Hey, there's something wrong with my picture." Cable companies are committed, through their contractual agreements, to make sure their picture functions. So the serviceman is covering in those northern climates.

Now when we see, and they are very much aware of this, that on that $24.95 bill, there are two taxes applied which must be spelled out in the invoice, that is where our northern members of this association are grateful for our appearance before this committee to express some of their concerns about that tax on those invoices because they are paying the extra burden. As Mr. Weckers pointed out, many of those are TENO areas.

Mrs. Bruder: We would also like to speak on generalized methodologies and administrative practices. As mentioned previously, there are vast differences between one-time transactions, such as the sale of a vehicle or an article of clothing, and an ongoing contract for renting, leasing or service.

In the cable industry, we are dealing with the long-term relationship and large volume processing of transactions. It has been evident in dealing with the Ministry of Revenue retail sales tax branch that the regulations are administered in a very generalized fashion.

It is the Ontario Cable Telecommunications Association's position that Bill 122 should address different forms of transaction. A corner store owner can implement a tax change on short notice, but by the nature of its volume, an industry billing 2.5 million accounts in a variety of calendar formats needs lead time.

To further illustrate the inflexible approach used in dealing with the cable industry, we would like to discuss the sales tax regulation referred to as the unbundling rule. This rule applies where a vendor rents or leases equipment and wishes to purchase his rental units on a tax-exempt basis. To qualify for the tax-exempt purchase, the vendor must itemize the said leased unit on his lease rental invoice to the customer. Failure to do so results in tax being levied for the original purchase of the units.

The validity of this position is questionable for several reasons. First, tax is collected and remitted on an ongoing basis for this rental unit, whether or not the rental fee is itemized on the invoice. Second, the total amount of tax collected for this rental over its lease life generally exceeds the tax exempted for the original purchase. Third, a vendor who receives payment for the lease by a payment method other than monthly invoicing--for example, by monthly bank deduction--should qualify for this exemption.

In this instance, the vendor does not itemize a rental on an invoice. There is no invoice. We believe the vendor should be permitted to offer a product consisting of service and equipment rental which is marketed as a package by third parties and to invoice that marketed package without jeopardizing one's tax exemption on the rental equipment. These points were raised with retail sales tax branch staff, but all proposals to this date have been rejected.

The cable industry is not seeking preferential treatment but, rather, fair and reasonable consideration of the different forms of transactions with our subscribers. In specific cases some of the smaller systems, which do not have the staff available to keep them informed on tax implications, were charged retroactively, which was very onerous to those particular small systems. We could talk about fairly large dollars for them.

Mr. Chairman: May we interrupt again? Mr. Nixon.

Mr. Haggerty: No, go ahead--I just want one final question there directed to--

Mr. Chairman: Later. I will put your name down. Mr. Nixon.

Mr. J. B. Nixon: I have two questions. The first question relates to a statement comparing the corner store owner with an industry billing $2.5-million accounts. I do not really understand the validity of that. If we

took the industry of corner store owners, we would be talking about billions of transactions.

Mr. Weckers: Let me attempt to clarify it, if I may. When the tax is increased, a store owner or someone who sells items of clothing or whatever can start collecting the tax the next morning, because it is the next transaction he is dealing with. The distinction we want to make is not so much the size of the industry as the fact that we have ongoing billing commitments. I touched upon that earlier.

Mr. J. B. Nixon: You are talking about multimonth billing.

Mr. Weckers: Precisely. That is part of that. In other words, it is not as simple for us, because when a tax is increased, we may already have collected some of the funds for that period the day before or the very day that it happened, and then we have to go back and recreate that transaction, if you wish. That is not the case in a retail store, no matter what its size. That is the point we are trying to make there.

Mr. J. B. Nixon: Second question: I do not understand what you mean by the unfairness of the unbundling rule.

Mr. Weckers: Let me try and illustrate that. It is particularly evident to those of our subscribers who have pay television service. Let's assume the regular package is about $16 a month for that. Part of that service includes the descrambling device that is required to descramble the pictures of First Choice, for example. That box will cost the cable operator from $70 to $150 per box, depending on the type that he wants to buy. When he purchases that box, the purchase is exempt from retail tax provided he identifies in the monthly bill that a certain amount of money for the service is set aside as a lease or rental payment for that box.

Mr. J. B. Nixon: Who is purchasing?

Mr. Weckers: The cable company is purchasing.

Mr. J. B. Nixon: And who issues the invoice?

Mr. Weckers: The cable company issues the invoice to the subscriber.

Mr. J. B. Nixon: Okay, but that is a separate transaction.

Mr. Weckers: Precisely.

Mr. J. B. Nixon: I want to get it straight. The cable company buys the descrambler tax exempt. Then they turn around and rent it to a subscriber.

Mr. Weckers: Yes, and he pays tax on it.

Mr. J. B. Nixon: And he pays tax on it.

Mr. Weckers: Right.

Mr. J. B. Nixon: In the billing to the subscriber, the invoice itemizes that part of the fee paid is for the line feed and part is paid for the descrambler, and you are objecting to that. Why?

Mr. Weckers: The reason is the following. First of all, what we are

talking about makes no difference in the revenue that is collected by the government, so there is no reduction of any kind contemplated here. What we are saying is that when the marketing of these services occurs, we really are talking about a $16 package for pay television, be that First Choice or The Sports Network.

Mr. J. B. Nixon: May I interrupt you there? As a consumer, I would find that objectionable. I have terrible problems with my pay company, which I leave unnamed. None the less, I would find it highly objectionable if you tried to issue an invoice to me as a consumer which did not itemize the account. What you are telling me is you do not want to itemize on your monthly invoice the account that I am paying for.

Mr. Weckers: No. With respect, that is not what we are proposing. The service we provide, pay television service, by definition requires a scrambling device. We do not sell someone pay television for $12 and rent him a box for $4.

Mr. J. B. Nixon: The consumer has an option. He can buy.

Mr. Weckers: No, he cannot.

Mr. J. B. Nixon: The consumer could buy a television which has an internal descrambler. I do not know what the term is. For sure, I have one. I do not have a separate descrambler with my television.

1610

Mr. Weckers: I am sorry. I think we may have a problem with definitions in this case. We are not talking about a converter. We are not talking about a built-in converter in a so-called cable-ready set. When pay television is being provided, the signal of that station is scrambled at the offices of the cable company and must be descrambled with a device provided by the cable company in order to receive it. So it is part and parcel of the service. What we are saying is, "Let's not confuse the issue of whether there is a portion of this for hardware in it."

Mr. J. B. Nixon: Let me ask you this. I am a cable subscriber and I get 31 channels as part of my basic package. I am from Metro, but I am sure it is smaller in the north. I have the option of picking up five, six or seven more pay channels. Let's say I pick them up. How many items are there on my invoice?

Mr. Weckers: There would likely be a charge for basic service, a charge for the package of pay services that you have purchased and then there would be a further identification, which is the issue we are talking to here, that says, for example, "Of that pay service, $4 is for the rental of this box."

Mr. J. B. Nixon: The rental of what box?

Mr. Ferraro: The pay TV descrambler. You get a separate descrambler.

Mr. J. B. Nixon: You get another box. So what is the problem with that?

Mr. Pope: In Timmins, for instance, we have three stacked on top of each other. Honestly.

Mr. Weckers: The issue is that if a cable company says: "Look, you have already contracted with me for a $16 service, which I have to provide to you, and I happen to have to give you this box. If I omit a specification from the invoice for that $4, or whatever theoretical amount of money is identified--it doesn't have to be even market value, any amount--if I don't put that on the bill and confuse you even more, then I will have to pay sales tax on the acquisition of the box and have double taxation, and retroactively so."

Mr. J. B. Nixon: I am still not clear. I now understand the system, I think. But I am not clear as to why the elimination of the unbundling rule would make life simpler for you. I would expect you would have more irate consumers than you do generally as an industry now, because you would be failing to disclose the cost of the separate items being leased or purchased.

Mr. Weckers: Let me attempt to make myself clear on this. When we market those services, we do not market a $12 and a $4 service which you happen to take together before you get the total service. We happen to market to our subscribers a $16 service, so that it is quite clear in all of our marketing materials and it is very clear in the minds of the consumer that when he pays $16 this is what he is going to get.

Mr. J. B. Nixon: I do not want to belabour the point, but I am suggesting to you that when you are marketing you may be telling them one thing, but in fact what they are doing is leasing a descrambler box so that they can acquire and pay for a feed of pay TV. So they are buying a marketing package of two components.

Mr. Chairman: I wonder if it would be helpful if Mr. Williams had some comments here. He is apparently a professional descrambler with the Ministry of Revenue.

Mr. J. B. Nixon: This needs unscrambling.

Mr. Williams: I am the director of retail sales tax. What the issue that we have involved here is--and it does not involve just cable companies; it also involves anybody involved in telecommunications who is defined as a carrier; cable companies are defined as carriers--it also affects your telephone bill in other respects.

You have two basic items here: You have the provision of a service and you have the provision of tangible personal property. The way the law reads is that anyone who provides a service and uses tangible personal property to provide that service must pay tax on those items of tangible personal property.

I will give you two examples. In the rental of a room a motel or hotel buys soap, towels, linens, bed sheets, carpeting, desks, TVs and whatever. They are providing a service and they collect tax on that service--transient accommodation--but they still must pay tax on all those articles which they bought. They do not recover those from the person who stays overnight except through their billing of the room.

When we come to a telecommunications area, say you have a telephone from the line where before unbundling you paid $10, for example, as your bill. That included the telephone and the line. You paid tax on that charge. If it was $10 you paid $0.70 tax, or now $0.80 tax.

The telephone companies were instructed by the Canadian Radio-television

and Telecommunications Commission to unbundle so that a consumer could go and get his telephone anywhere he wanted and simply pay only for the line. This meant that the telephone company, in order to be competitive with the stores, had to break the charge between what you pay for the line and whether you want to rent or not rent the telephone from it. If they did not, then the telephone is still buried in that.

They paid tax on that telephone and recovered a tax from you but, again, we are talking about tangible personal property and a taxable service. The two of them are separate issues. When you put them together they lose that identity and there is tax only on the end result and you are not allowed to buy the components tax exempt, which is what the cable companies would like to do on the descrambler.

Mr. Ferraro: I think if we got away with that we would not have a problem.

Mr. Williams: What the cable companies want to do is rent you the descrambler, but it is included in the price that you pay for the overall service--is that not correct?--for pay TV. They do not want to pay tax when they buy the descrambler from their supplier, so in order to rent it to you, they have to do one of two things. They either have to show you the charge for it or tell you that you are paying so much tax on the rental of that descrambler per month or per charge.

Mr. Moody: Could you clarify a point for me? Not all of our members are with Bell Canada, as we described earlier.

Mr. Williams: No. There are several telephone companies in Ontario.

Mr. Moody: I realize that too. I do not think that the small companies will be as small as five members of a family operating a business. Some of these smaller operators, I gather, were not really, in their minds, made aware of the unbundling and perhaps were less sophisticated in financial matters and more expert in technical matters.

I am asking this as a question. Let us take the Red Lake operator who overlooked the unbundling and continued to bill for his service in a bundled fashion but remitted his tax and was audited by a tax man at some later point. Would there have been this large retroactive collection because he had not unbundled, given that he said that he would, from this point on, put it on his invoice even though he had not for the past eight months?

Mr. Williams: The only assessment that he could possibly be liable for would be if he had bought his equipment exempt of tax. If he had not been unbundling, he has not rented anything.

Mr. Moody: But if he had been remitting the tax on this.

Mr. Williams: He remits what he collects. But, you see, in that case he is collecting on the basis of a taxable service, not on the basis of a rental of tangible personal property.

Mr. Moody: So he would not be liable to a retroactive payment of tax on those?

Mr. Williams: If he bought the equipment exempt. If he did not buy the equipment exempt there would be no liability.

Mr. Chairman: Mr. Cleary has a question.

Mr. Cleary: Thank you, Mr. Chairman. My question has been answered.

Mr. Chairman: Carry on then.

Mrs. Bruder: The last item we would like to deal with is consumer perception. Our members believe the committee should be aware of the discontent expressed by many subscribers regarding the imposition of tax where "reasonableness" is not apparent. Two specific areas may be used as examples.

During special promotions for premium pay television, the service and equipment for reception is provided to the subscriber at no charge. The cable company, however, must, by regulation, collect the eight per cent tax on the value of the free rental equipment. As the trial periods are generally of 15 days' duration, this equates to 16 cents.

1620

Mr. Ferraro: Free rental is a contradiction in terms, is it not?

Mrs. Bruder: We do not charge for the normally rented equipment.

Mr. Ferraro: I am sorry. I did not mean to interrupt. Go ahead.

Mrs. Bruder: The validity of this tax imposition is invariably questioned by the customer, given that there is no charge and thus, in his or her mind, no sale.

A further questionable practice under regulation is to levy tax on the computed value of free cable service given to schools, senior citizens' homes, hospitals, etc. Members of our industry generously provide service at no charge to these worthy institutions but then are placed in a position of having to explain to the recipients why we are requesting payment for the tax imposed.

The perceived callousness of the Ministry of Revenue's policy is a source of embarrassment to us and, given this explanation, we are sure it will be of concern to the committee. We respectfully request serious consideration to be given to extending an exemption to these institutions for the complimentary service they receive.

Mr. Weckers: I think that point is perhaps self-explanatory. Where there is no charge there should be no tax; that is hopefully what we can arrive at. That, in essence, summarizes or explains all of the items that we have of concern here and we would like to answer more questions if there are any more.

Mr. Chairman: I notice you have appendixed a memo from Nova Scotia as to what its policy is. On that last point, I guess Mr. Kozyra has a question, and then I will go to Mr. Haggerty.

Mr. Kozyra: I would like to make a comment because you make an interesting argument in this in terms of perception and shifting the negative impression or the callousness to the government. I would just like to say—not in defence of the government—that there is another side to it. One is part of your promotion in the sense of hoping to attract more business or it could be considered this provincial sales—

Mr. Moody: We are hoping to collect more tax for the government if they take the service.

Mr. Kozyra: That is right, and do more business and profit for you as well. The other, although it is not promotion, is about giving it to hospitals and senior citizens' homes and so on, hopefully generating for you—well, not hopefully—it does generate for you considerable public relations value, which is, again, a good part of doing business because it does pay dividends in a community in many other ways.

A case could be made by government to say that it is you and your association members who could very well or should be absorbing that cost rather than passing it on because it is part of your ongoing, very positive but still ongoing, business practice.

Mr. Moody: Is this rule generally applied? If at my request or without my request I receive goods on trial which I may return after ten days' examination, is there tax applied on that? If I were to get Book of the Month Club and they say, "Have a look at this and if you do not like it, send it back after ten days?"

Hon. Mr. Grandmaître: As long as you do not read it.

Mr. Moody: Not if I do not read it. But there are circumstances which we all know about where you can examine merchandise for a certain period of time and return it without expense; free examination. Really, in some circumstances, our service is comparable to that free examination.

Hon. Mr. Grandmaître: Tax is only paid when the product is consumed, though.

Mr. Moody: Pardon?

Hon. Mr. Grandmaître: Retail sales tax is paid at the time the product is consumed.

Mr. Moody: I think if you want to cheat, there are other examples to examine the product. You consume it and return it.

Hon. Mr. Grandmaître: No, I would not know of those.

Mr. Russell: You can tell us as long as we do not know about it.

Mr. Weckers: It is fair to say that there should be and there is a public relations value and services are being offered free. I am not disputing that. However, I think we are really looking at some habits that have been formed in the industry a long time ago. I think that in any community where schools are getting service for free at this point in time, and it has been happening for 15 or 20 years, the public relations value has been exhausted.

What we would like to do is to say to our members, where this is the case, we would like to continue that practice. We do not want, therefore, a tax attached to the provision of that service. If it happens to then be beneficial to the industry and to the company and they get more subscribers as a result, then there is a benefit to the province as well because they have more customers from which to collect the tax.

Again, it is just a small nuisance factor. As I said before, many of our

points, I believe, are relatively small, given the whole context of the act, but can have a direct and good influence on our subscribers, on your constituents, in the sense that they become more sensitive to what they are telling us.

Mr. Moody: I have taken the liberty of asking the clerk of the committee to provide a list of names of those in attendance today. Just for further edification, we will be sending out a letter with the seven points perhaps more specifically, but briefly stated. It may not meet your January 13 deadline, but we will circulate some of the additional commentary made today in point form, if that would be useful to the committee.

Mr. Chairman: Generally speaking, although we want to complete this bill as quickly as we can, we will then be dealing with prebudget matters with regard to the next budget. Anything you say is relevant to that, in any event. Mr. Williams might be able to assist us on this point of free rental as well.

Mr. Williams: I want to clarify that what you are talking about on the free rental, the trial period so to speak, is what is defined under the act as a promotional distribution. You are in fact the consumer; the person providing the service is the consumer. There is no need to charge the customer the 16 cents tax. The cable company is actually liable for the tax. If it chooses to pass it on, that is fine, but it is not obligated to pass that 16 cents on to the customer.

Mr. Moody: Is that true of everyone who lets a customer examine merchandise, that he has to pay the tax for everything he sends out?

Mr. Williams: Everybody who sends out what would normally be subject to sale is taxable at his cost, not on the cost he would normally have charged for it, but what it costs him for that particular product in his hands. Again, if Bell decided to give you a telephone and the telephone cost $5 --

Mr. Moody: It is a bad example.

Mr. Williams: Right.

Mrs. Bruder: Go ahead; I like the telephone.

Mr. Williams: If they gave you a telephone and it was worth $5 to them and they normally sold it for $10, the tax they would be liable for would be eight per cent of the $5, not the $10 at which they would normally sell it. If you provide a free 15 days' worth of pay television, then the tax is not on the charge you would normally make for the 15 days, but on what your costs are for that 15-day period.

Mr. Moody: Could you create a rate for institutions that would be remarkably low? You would not have sold them anyway. There is a senior citizens' home in your community. You say, "The chances of selling that would be almost nothing; therefore, we've created a rate for those people and we're going to give them the service for nothing."

Mr. Williams: In that respect, you are no different from people who contribute prizes for raffles for needy causes. Those people take those products out of their inventory and provide them for raffling. The people holding the raffle then obtain money by selling those tickets. When they draw

those from inventory, they must pay tax to us on line 3 of their return based on what those were in inventory, not what they would normally have sold them at or anything else. We get the tax on that as well.

Mr. Moody: I have to leave "callous" in the presentation in that circumstance. We worried about the word "callous" and we are going to leave it in.

Mr. Williams: In any of these situations, and it goes back to the other example we were using as well, if an operator is concerned about what his tax liability may or may not be, we have toll-free numbers throughout the province. They can simply pick up and call and get a clarification. He need not fear the auditor coming in at some point at a later date and raising some liability he cannot afford.

Hon. Mr. Grandmaître: There is only a $2 charge.

Mr. Haggerty: I am looking at "III: Impact of Tax Increase in Small and Distant Communities." I look at this particular area. I am from a rural area. I have always had to pay an extra freight on the Bell Canada system, such as mileage. I am not getting any more service than someone would be getting in an urban area.

The price of milk is pretty well standard across Ontario, yet it is manufactured, you might say, in the rural area and mileage means nothing. It is pretty well the same charge to the consumer, the same as beer. I find it difficult to say that this tax will apply to rural areas or outlying areas, outside the urban areas, that you can have a spread from $12 to $24 a month and that the person who wants cable television should be paying the full freight, the $24.

It should be the same as it is for anybody else because they are only buying one particular service. I do not think mileage should be taken into consideration in the sense of saying there should be a tax on it. If Hydro took that stand, my God, we would not have hydro out in any of the rural areas of Ontario.

I ask the minister to consider that. If the average rate between the $8, $12 and $24—if you took an average and then said, "This is what the tax is going to be," I think it would be fair and just to anybody who is purchasing cable television. Do not penalize those who are living outside the Metropolitan area.

1630

Hon. Mr. Grandmaître: I do not think the member should be concerned. Yes, I will look into it. I do not have the guarantee the Treasurer (Mr. R. F. Nixon) will listen to me, but I will certainly pass on your comments.

Mr. Haggerty: If I had a quorum here, I would put it in a motion, but there is not a third party member here. I thought I could count on them for my support today. I should correct myself. It is the official opposition member who is not here. The third party is here today.

Mr. Ferraro: In an unbiased way, I can say that the onslaught of the sales tax may solve a lot of our problems or create a hell of a lot more. I have two questions. I must admit I was ignorant of the fact some cable companies would offer free service to various institutions or seniors' homes

and I think that is commendable. Can you tell me to what degree that would be prevalent in Ontario? It certainly does not happen in my riding, as far as I know.

Mr. Weckers: I cannot be specific, but I know in the case of our company, we have service to 300,000 subscribers in about 40 different communities in Ontario. We do not charge any school for anything other than maybe the initial installation when it has to be brought into the building.

Mr. Ferraro: Could you hazard a guess as an industry, though? Out of the 822 communities, if you will, how many would have free service?

Mr. Weckers: When it comes to schools, I think you will find a great majority of them have free service.

Mr. Ferraro: This may be a dumb question, but again, aside from the public relations value of that, is there not a bona fide deduction obtainable at the other end if they do have it?

Hon. Mr. Grandmaître: Not at the present time.

Mr. Ferraro: Whether it is advertising or PR?

Mr. Chairman: It comes off your cost of doing business.

Mr. Russell: I think Mr. Williams has given us the short answer. They are taxable in the way he described it. Let me go on to say that in terms of these recommendations, and this one in particular, it is possible to understand a number of the points you are making about modifying the application of the tax. To a very large degree, they involve suggestions to the Treasurer that perhaps he might differentiate his tax policy.

That is not an unusual thing in the scheme of things. Taxes are in many ways geared to fit particular sorts of situations. In the case of the free services to the schools and other nonprofit and charitable institutions, I can see the difference between that and the free trial periods you provide directly to consumers. To some degree anyway, the first one involves your doing it in the direct hope of a gain, and in the second one, the benefits you might get from that are a little less obvious or less certain. In that sense, we can see it is something you are giving at a cost without any direct hope of getting a return.

The same thing applies with the suggestions for perhaps differentiating rates for small communities and northern communities. You mentioned yourselves that it would seem to fit with, say, other policies running through TVOntario. I suggest that as you advance these suggestions to the Treasurer, you make sure those points are made.

Mr. Ferraro: The second question I have is to these not-so-callous individuals present here today. It goes back to the unbundling aspect of it and the delineation of the cost of the pay TV descrambler on the invoice so that you indicate the tax charged for that particular item. Does there come a time when that tax is negated if you were to acquire that commodity? In other words, if you took the $70 cost of a descrambler for pay TV and you paid the eight per cent tax, it is $5.60, hypothetically. There would come a time, I would assume, when the $5.60 cost plus interest would be negated, or am I assuming wrongly?

Mr. Russell: That would depend on whether people have the free choice to go out and buy their own descramblers.

Mr. Weckers: That is not permitted. The descrambler is the sole method by which access to the service is controlled.

Mr. Ferraro: I understand that. If I owned a cable company and I wanted to offer pay TV, and I were to buy a descrambler I wanted to rent to Mr. Kozyra and it cost me $70, I would have to indicate on the invoice I gave Mr. Kozyra that it cost me $70 and that a portion of that tax—the amount for the $70 has to be delineated on the invoice. Am I right?

Mrs. Bruder: Assuming a $4 per month rental fee for the rental for that original unit, yes.

Mr. Ferraro: So for the $4 fee, then, I have to charge an eight per cent tax, specifically?

Mr. Weckers: The only reason that $4 or any amount—I could put 10 cents on for that matter, as long as that amount is identified on your bill. Let's assume we are working with $4 here. When that is identified on your bill, that $4 portion of your bill is for the rental portion of your pay TV box. Then I have the right not to pay tax on the acquisition of the box. If I forget to put that on your invoice, then I have to pay tax. That is the only thing that is going on here.

It is just another way to confuse your customer because he cannot come to me and say: "Excuse me, I do not want your descrambler. I do not want to rent it from you. I want to buy it from you." I say, "I can't do that." It is not like it is with a converter where you have the right to purchase it or buy a television that has it built in. You do not have an option when it comes to pay TV. The only way I can give you pay TV is by giving you that box and taking it back when you do not want pay TV. But if I make that one slipup in creating the bill, it has a tax implication, not to the customer but to the company.

Mrs. Bruder: On your $70 purchase, the $5.60 is recovered in a year and a half. Then we keep on renting it for another year and a half and the provincial government gets another $5.60.

Mr. Ferraro: Of course, if you had the cash flow, it would make a hell of a lot more sense to buy the damn thing.

Mrs. Bruder: You cannot.

Mr. Weckers: We are buying it, but the customer cannot buy it.

Mr. Chairman: I have a question that is completely irrelevant to Bill 122. It just concerns me. Do you have an ability to charge for installation in unusual places, such as industrial areas, that is greater than it is in a residential part of a community?

Mrs. Bruder: You are talking about a commercial installation versus a regular residential.

Mr. Chairman: Right.

Mrs. Bruder: Most systems have some ability, even if it is just hand posting it, yes.

Mr. Weckers: The straightforward answer is this. We are allowed to charge the actual cost of an installation, be that residential or commercial. We typically say it is $40 for installation, but when it is underground or in some other way, very often it exceeds that. When you have to go under a street and into some other place, it could be several hundred dollars to do the same thing. We are by regulation permitted to charge the actual cost of an installation.

Mr. Chairman: That explains the difficulty the Kitchener-Waterloo Record had in having cable installed in its office. It is a small company. It is on the auction block now for $90 million.

Mr. Cleary: I am still a little confused here. On page 4 you say, "Ontario residents residing in major urban areas generally pay anywhere from $8 to $12 monthly for cable service."

1640

Mr. Moody: Basic.

Mr. Cleary: Basic. What do you get for that?

Mr. Weckers: You get all the off-air channels.

Mr. Cleary: Which?

Mr. Weckers: The ones that you receive off-air. In Toronto, for example, you would get the Buffalo signals; you would get Kitchener; you would get Peterborough, Barrie and of course the Toronto stations. You now get Youth Television, the weather channel, the House of Commons, the Legislature, TVOntario, French TVOntario. All of those services would be part of the basic service.

Mr. Cleary: For that $8 to $12?

Mr. Moody: Additionally, there are other companies that market the greater package called the extended basic.

Mr. Weckers: Beyond that, you have the option as a consumer to say, "I would like TSN for the time being,"or, "I would like First Choice" or, "I would like one of the French pay television services." or Telelatino or Chinavision and so forth. Any of those services would then be in addition to the basic service.

Mr. Cleary: For that $8 to $12, do you have to rent anything from the cable company?

Mr. Weckers: No, that is the charge. Obviously, we would have as many as 30 channels on that now. If you have a standard television set with channels 2 to 13 on that, then you can go out and buy yourself a converter and you get all those channels. Those converters could be picked up at a flea market for $20 or $25, or you could rent a converter from the cable company if that is your wish. But for the $10 or $12, you have all those services

automatically on one television set. There would be a charge for a second outlet, which would be $3 to $4.

Mr. Chairman: We are getting into a lot of consumer information here.

Mr. Weckers: I will take orders at the end.

Mr. Chairman: Are you finished, Mr. Cleary?

Mr. Cleary: I am finished but I am a little confused.

Mr. J. B. Nixon: Just a quick comment: I should either go back and check my bills or check with my cable company, because I believe I am being charged at least twice that for the basic.

Mr. Chairman: So am I, but maybe we are in remote areas, Mr. Nixon.

Mr. J. B. Nixon: We are in Metro Toronto, both of us, and we are paying around $25 a month.

Mr. Chairman: So am I, in Kitchener.

Mr. McCague: How much in Kitchener?

Mr. Chairman: It is $25 a month.

Mr. Weckers: It is a function of how many outlets you have in your residence, of course.

Mr. Chairman: Pardon?

Mr. Weckers: The basic charge is for the first television set that is connected.

Mr. Chairman: Oh yes; you are right.

Mr. J. B. Nixon: This is for one line.

Mr. Weckers: Then you are probably renting a converter.

Mr. J. B. Nixon: No.

Mr. Weckers: I am sorry. Then you are paying for two months in advance; that is what you are doing.

Mr. J. B. Nixon: No.

Mr. Weckers: Send me a copy of your bill. I will look at it first thing.

Mr. Moody: Are you getting TSN, Much Music, First Choice?

Mr. J. B. Nixon: No.

Mr. Chairman: Ms. Hart, you have a question?

Ms. Hart: You are coming to us with your concerns about government

levying of tax, while as a consumer—I may be the only one in the room who has ordered cable in the last month—I was unable to get it, period.

Mr. Weckers: Where?

Ms. Hart: In Toronto.

Mr. Laughren: There are two of us.

Mr. Moody: Unable to get—

Ms. Hart: It at all.

It may have escaped the notice of the cable companies, but most people, at least in Metro Toronto, work all week long. The cable company I called said: "Sure, we'll come. We won't even give you half a day. You have to stick around all day and we may or may not show up." Now, you are dealing with a monopoly. You have been given a government monopoly by the people of Canada.

Mr. Moody: I am sorry, but I have not quite heard this comment. It has to do with your working? You are not able to get a service technician?

Ms. Hart: Nobody is in Toronto. No, not service. We are talking about basic installation.

Mr. Chairman: I think we are getting a little off topic.

Ms. Hart: It is, but since you were here, I thought I would—

Mr. Moody: Perhaps we should have a hearing of this committee.

Ms. Hart: You might want to look into it.

Mr. Chairman: It probably helps you as well to know there are some consumer concerns.

Mr. Ferraro: Do you want to hear more?

Mr. Chairman: I appreciate very much your appearing before us and the way you have presented your presentation, which divides it into compact arguments that are easy for us to digest and work with.

Mr. Moody: We are grateful to the committee for rescheduling us. We somehow got confused on our day. We know we are here at a time when we are sitting into your own committee meeting time. We are grateful to Todd Decker for making that arrangement on our behalf.

Mr. Chairman: You are welcome. It turned out not to be that difficult for us in any event because of the events of yesterday. Thank you very much.

If the committee is prepared, we will move on to clause-by-clause. Looking at the bill, are there any amendments to the bill and if so, to what sections?

Mr. McCague: I am sure there is one amendment that could be made to the whole bill and that is that we throw it out or that we lower the eight per cent to seven per cent. That of course would not be a responsible thing for

any opposition party to do, given that the government has already ripped off the public of Ontario for a considerable sum now and it could not find a lot of them to pay it back to them.

Mr. J. B. Nixon: Those are harsh words.

Mr. McCague: However, it does point out the problem with dealing with a bill that was introduced I guess on May 2 or became effective on May 2 and not getting around to dealing with it until the following year.

As expected, you got some good points from the Ontario Cable Telecommunications Association which I am sure you will bring to the attention of the Treasurer (Mr. R. F. Nixon) in due course.

I would like to ask a question or two about the bill. It is always interesting to read the explanatory notes when one does not have the whole act readily before one.

However, the amendment that results in advertising inserts and supplements becoming taxable: What is that amendment in response to? If I could be general, Mr. Chairman, I will not take a lot of your time providing I get some answers.

Mr. Chairman: That is fair enough. You are looking at section 4?

Mr. McCague: Yes, I am looking at subsection 4(1).

Mr. Laughren: I am sorry, it is just a matter of a question. I notice we are discussing--I do not want to interrupt, but have we moved to section 4?

Mr. Chairman: No. I think Mr. McCague is dealing generally with the bill and is simply asking the minister a question concerning section 4. In the general discussion of the bill, I am allowing that.

Mr. Laughren: I am sorry. Okay.

Hon. Mr. Grandmaître: The definition of--it is not on page 4.

Mr. Chairman: Section 4 of the bill, I think they are talking about, which has to do with advertising inserts and supplements becoming taxable despite being distributed as part of a newspaper.

Hon. Mr. Grandmaître: Advertising supplements. A lot of these flyers or pamphlets were being distributed or delivered with newspapers and I am sure that in the last five or six months you must have received even books accompanied with your newspaper and we wanted to distinguish or give "flyer" or "pamphlet" a definition versus a book, a catalogue or whatever.

1650

Mr. McCague: I guess the point I was looking for was: is this in response to a loophole that you found in the act, or is it in response to complaints by competition?

Hon. Mr. Grandmaître: That is a good question.

Mr. Williams: It was more in response to competition from the people

who distribute door to door, who said they were being placed at an unfair disadvantage. Rather than having the method of distribution say what was taxable or not taxable we went directly to the article. It becomes taxable regardless of how it is distributed.

Mr. McCague: Does that mean that if we have an item that we think should be added or subtracted from this bill, we can do that?

Mr. Ferraro: If you have a majority.

Ms. Hart: Try us.

Mr. McCague: Okay. Subsections 5(1) and 5(3)—and I am going by the simple printed bill here and the explanatory note—is that the garage sale amendment?

Mr. Laughren: Excuse me; are we going back to these sections before we start to get into clause by clause?

Mr. Chairman: Yes.

Mr. Laughren: I see. Okay. That sounds logical.

Mr. Ferraro: I think Floyd has a good point.

Mr. Laughren: I am not going to interrupt Mr. McCague.

Mr. Chairman: I just thought we would resolve— The problem is, I am not hearing anybody bring in any amendments at the moment, but Mr. McCague may have some concerns. So go ahead. Do you have a question concerning section 5?

Mr. McCague: Yes. Is that the garage sale amendment?

Hon. Mr. Grandmaître: No.

Mr. McCague: Is there coverage for garage sales in the act at the present time?

Mr. Williams: When you say, "Is there coverage for garage sales," can you expand on that? Are garage sales subject to tax? Is that what you are asking?

Mr. Laughren: How do you sell your garage separately?

Mr. Ferraro: Get us severance.

Interjections.

Mr. McCague: You are up north. It does not matter. No, go ahead. What is the situation with garage sales?

Mr. Williams: In a garage sale the purchaser, as always, under the act, is responsible for paying the tax. The holder of a garage sale is only responsible for obtaining a permit which authorizes him to collect that tax if he does it as a business. If he only does it once or twice a year, we do not consider him to be in the business of selling things. That does not remove the onus from the purchaser to report his purchase and the tax thereon, but it does not place the onus on the holder of the garage sale to collect the tax

unless he does it frequently and you therefore consider him to be in business, at which point he should obtain a permit.

Mr. McCague: I presume the reason you have not attacked this one is that it is too difficult to police?

Mr. Williams: It would be very difficult to administer or to police.

Mr. McCague: Because you are missing a lot of revenue, especially in more rural Ontario.

Mr. Ferraro: Except if you consider this stuff is not thrown into the dump; so we do not have to worry about waste.

Mr. McCague: It will get there eventually.

Have you not had considerable pressure to include garage sales under the tax system? I know that the vendor's permit is there and there is an obligation. I tried to complain quite a few times. As a for instance: last spring, on one Saturday there were 38 garage sales in Alliston which has a population of 5,000. Some of the papers had a lot more than that. Those are the ones that were in the papers. Now the main complainants, of course, are auctioneers.

Mr. Williams: And legitimate vendors.

Mr. McCague: Yes, and legitimate vendors. I just wondered: there are a couple of points here where I thought that maybe it was done in an attempt to catch garage sales, but that is not the case.

Mr. Williams: No.

Mr. McCague: I will just leave that with you. It is something you may or may not want to—

Hon. Mr. Grandmaître: If I may add this: more and more municipalities—and in fact the Association of Municipalities of Ontario was interested in licensing these people—in maybe 15 per cent or 20 per cent of the municipalities you do need a permit to hold a garage sale or a yard sale or whatever. They are trying to control them that way. As far as retail sales tax is concerned, I personally have never heard of any serious complaints.

Mr. Russell: I think in practical terms the answer, in respect of garage sales, is that we are not terribly interested in them. They tend to be occasional, they tend to be selling used goods and so on. We are, however, much more concerned with the massive growth in the area of the so-called flea markets. It is a much more organized commercial undertaking.

Mr. McCague: But not a lot of difference in a lot of respects.

Mr. Chairman: Mr. Laughren? I am sorry. Mr. McCague?

Mr. McCague: Go ahead. No.

Mr. Chairman: Mr. Laughren, do you have some questions or concerns or comments?

Mr. Laughren: Yes, mainly on section 2, which raises the tax from

seven per cent to eight per cent, but I do not want to cut off Mr. McCague.

Mr. McCague: No, go ahead, Mr. Laughren. We do it his way; he is more experienced than I am.

Mr. Laughren: That does not mean a thing. I was wondering, since the Minister of Revenue is responsible for this bill, whether he had a difficult time convincing the Treasurer to raise the sales tax one per cent?

Hon. Mr. Grandmaître: No. Honestly, Mr. Chairman. We do work very closely. I trust the Treasurer and brought the bill in the House. I think it is for a very good cause.

Mr. Laughren: I am surprised to hear you say that. I thought that you had to do an enormous amount of arm-twisting to get the Treasurer to--the reason I say that is a quote from Mr. Nixon which leads me to believe that he was opposed to it and that he was only convinced to raise the tax by your persuasive powers. You are saying that is not the case?

Mr. Chairman: I wonder if you are not asking the minister to reveal cabinet discretions.

Mr. Laughren: No, not at all. Not at all. I am just--

Mr. Chairman: But when were these--

Mr. Laughren: Let me ask the minister if, when he was considering raising the tax--

Hon. Mr. Grandmaître: When I was considering raising--

Mr. Laughren: When you were considering raising the tax one per cent. I assume that you thought about it before you did it.

Mr. J. B. Nixon: No one ever thinks about these things before--

Hon. Mr. Grandmaître: Mr. Chairman, I never approached the Treasurer or consulted him on the increase of the sales tax.

Mr. Laughren: You just do it.

Hon. Mr. Grandmaître: Yes. As a government, we thought it was for a good cause, as I just pointed out. With the demands of the opposition for good roads, better health care, more schools and so on and so forth, we thought that we had to raise the sales tax by one per cent.

Mr. Laughren: I am shocked and appalled that you would proceed in such a cavalier and arbitrary fashion because--

Interjection:

Mr. Laughren: --I am wondering if you even bothered to read Mr. Nixon's quote. I know that you would like to hear it.

Hon. Mr. Grandmaître: I would like to get a copy of it.

Mr. Laughren: He said, and I am quoting this--he is talking about

raising taxes. He said, right after he became the government in 1985: "It was tempting to say, 'Let us increase the sales tax by one per cent and thereby reap $700 million of additional revenue by just changing one little number one little bit.' However,"—this is Mr. Nixon speaking—"the attitude expressed by most of the progressive members of the House, except for the Progressive Conservatives, is that sales tax is a revenue that we want to keep under strict control and, in anything, increase what little progressivity there is by improving tax grants and by keeping it as low as is practicable." The member said that in 1985.

I know that it is not right that the Treasurer has the gall to stand up on budget day and announce it when it is your bill. I have always felt resentful that and thought if we were the government I would never consent to be Minister of Revenue, because it is—

Hon. Mr. Grandmaître: I did not ask for it.

Mr. Laughren: —a gross insult. I am wondering, knowing how the Treasurer—who is considered to be a senior member of the front bench—felt about regressivity of sales tax and what it does to people on low income, in particular, how you would have the chutzpah to move in and raise it. You just said you did not have any consultation with him. You did not go to him; you just went ahead and did it. I do not know how you can get away with that. I would like to know your secret.

1700

Hon. Mr. Grandmaître: There is no secret.

Mr. Laughren: Why would you not consult on it?

Hon. Mr. Grandmaître: After reviewing our programs, we, as the government, thought that by increasing the retail sales tax by 1 per cent we could raise enough dollars to provide Ontarians with all their needed services.

Mr. Laughren: So much for Mr. Nixon's views on the regressivity of the sales tax.

Hon. Mr. Grandmaître: Maybe you should ask Mr. Nixon?

Mr. Laughren: I have; he says it is your fault.

Hon. Mr. Grandmaître: I see.

Mr. Laughren: Why do you think you have this bill?

Hon. Mr. Grandmaître: I am sorry I cannot give you a better answer. I think you should consult the Treasurer.

Mr. Laughren: I have consulted him and he says: "It's not my bill. Go see Mr. Grandmaître." What kind of ping-pong game is this? He announces it, you collect it and you blame each other. Do you apologize for each other? He apologizes and says it is yours.

Hon. Mr. Grandmaître: We work as a team as a government.

Mr. Laughren: Right. I do not really mind your offending the Treasurer, because he is not my favourite person anyway.

Hon. Mr. Grandmaître: That is not what he tells me.

Mr. Laughren: I do not like the way you offend this committee. I do not think you listened to the deliberations of this committee either. I do not know whom you consulted.

Mr. Chairman: The minister has been here for the whole of the deliberations.

Mr. Laughren: When he makes his decisions, who does he consult? I am sorry. I did not know the chairman wanted to answer.

Mr. Chairman: Do you have any other comments?

Mr. Laughren: Oh, I have lots of them.

Mr. Chairman: All right, go ahead.

Mr. J. B. Nixon: On that point, I am only substituting for a member.

Mr. Laughren: Me too.

Mr. J. B. Nixon: So you are substituting? Let the record to show that Mr. Laughren is substituting and has not been here for the full hearings.

Mr. Chairman: Nor yesterday.

Mr. Laughren: That shows you my interest.

Mr. J. B. Nixon: Which I would suggest is limited in this case, given that you have not been here for the full hearings.

Mr. Laughren: Oh, I see. Where does your interest lie?

Mr. J. B. Nixon: I have been working on other committees. Mr. Pelissero has been here.

Mr. Laughren: I think this Mr. Nixon thought I was speaking to him when I said that Mr. Nixon was not my favourite person; I was not speaking to this Mr. Nixon.

Mr. J. B. Nixon: Oh, I am relieved.

Mr. Laughren: I read the recommendations of this standing committee on tax reform, which say, "Separate hearings should be held on tax reform in order to undertake a comprehensive study of the tax system including the issue of developing a more progressive base." That came from this committee, as I recall. It must come as somewhat of a slap in the face to have the most regressive of all taxes increased after a recommendation like that coming from the committee, and I commend the committee for such a recommendation. But then to have this minister come in with a 1 per cent increase in the most regressive of all taxes after that recommendation I find very strange. Anyway I know that the minister will do as he has done and that is it. But I do not have to like it.

I would like, while we are on the subject of retail sales tax, to have a comment from the minister on what kind of meetings have been held with the federal government on folding this particular sales tax in with the federal

phase 2 tax reform proposals.

Hon. Mr. Grandmaître: I think I have answered the member in the House while we were going through the bill and my answer is still the same. The person responsible for negotiating with the federal government is the Treasurer. I know that a number of meetings have taken place to look at the possibility of introducing a national sales tax. Again, that is as far as my implication in those negotiations goes. No, that is not my responsibility. It is the responsibility of the Treasurer to negotiate these agreements, if I can call them agreements.

Mr. Laughren: It certainly will be. I wonder if the minister, when he was contemplating this dastardly move to increase the sales tax one per cent, took a look at other jurisdictions to determine to what extent Ontario raises its revenues from sales taxes versus other forms of tax, such as income, corporate and that sort of thing, and to what extent the minister was able to compare where Ontario fits, and you can call it whatever you want, in a regressivity or progressivity scale with other jurisdictions.

Hon. Mr. Grandmaître: In the personal income tax, 29 cents is being drawn; retail sales tax, 22 cents; corporation tax, 12 cents; gasoline and fuel taxes, 4 cents; other taxes, 4 cents; Ontario health insurance plan premiums, 5 cents; interest on investments, 1 cent; Liquor Control Board of Ontario profits, 2 cents; fees, licences and permits, 3 cents; Canada assistance plan, 4 cents; established programs financing, 8 cents; federal government payments, 15 cents, and other revenue, 14 cents.

Mr. Laughren: I am sorry, that first one, the 29 cents was what tax?

Hon. Mr. Grandmaître: It was 29 cents in personal income tax.

Mr. Chairman: This material is all in your economic review.

Mr. Laughren: Yes. I will tell you why I asked that question. I have been unhappy for a long time with the way the government keeps falling back on the consumption taxes. Of course, sales tax is the classic consumption tax. It has gone up dramatically over the years. Income tax is going up some, and corporate tax is going down as a proportion of revenues collected from taxpayers.

I am wondering whether or not the minister was worried or concerned about that when he stuck it to the taxpayers with another one per cent. I do not know how he can feel comfortable. I know all of it is not this minister's fault; we live in a federal system. But I do not like it that just in the last four years in this country—and it is not all Ontario, I hasten to add—consumption taxes are up 46 per cent, income taxes are up 31 per cent and corporate taxes are down 8 per cent. It seems to me that is a trend we should guard against. I do not want to live in the American tax system, and I can see that is the direction in which we are headed. That bothers me.

I also would like the minister's comments on an Ontario income tax that would alleviate some of the need for this kind of tax to be increased for ever. I do not think that is easy. The chairman is looking a little shifty-eyed about my question, but I think there is a link in that if you have your own income tax and do what you will with that, it affects what you do with the sales tax. I am wondering whether or not the minister can tell us whether there has been any serious thought about that.

The Ontario Economic Council, when it was flourishing, recommended that Ontario should look at its own regional income tax. Quebec has its own. I do not know whether any other province does; I do not think so. I am wondering whether or not the minister has had his officials take a look at that.

1710

Hon. Mr. Grandmaître: I can tell you that I was never part of these discussions. The Treasury does look at all those possibilities. A corporate decision, if I can use that word, is made through the Treasury. No, I was not part of these discussions.

Mr. Laughren: Perhaps I am reading too much into the Ministry of Revenue's mandate here. If I am, please tell me so. Is the Ministry of Revenue's major role to set up an efficient system of collection--I am trying to get at that--or also to have some kind of say in the tax regime we have in Ontario? Where is that line between the Ministry of Revenue and the Treasury?

Hon. Mr. Grandmaître: One of my responsibilities is to collect taxes and have a good system of tax collection, but this is decided in the House. The budget is decided in the House, and once a bill has been approved in the House, it becomes my responsibility to respect that bill and that is exactly what I am doing.

Mr. Laughren: No, I understand that. What I am trying to find out from you is where does the Ministry of Revenue fit in the determination of any given tax regime, whether it is an increase in the sales tax of one per cent, whether it is having a provincial income tax or whether it is a change in the corporate tax rate on small business or whatever. Where does the Ministry of Revenue fit in there? There must be a fit in it, because they cannot hand you something if you have not had a say in how it will be collected and whether it is practical, I do not think.

Hon. Mr. Grandmaître: Since that is a ministry question, I will refer the question to the deputy minister.

Mr. Russell: I think, as the minister said, the ultimate choice as to which taxes are used and how and to what extent is a matter of the Treasurer's essential prerogative in terms of the overall balance of all the other factors he takes into account, the fiscal thrust of his policies and all the rest of it, including the competitive nature of taxes across the country and internationally. These have a bearing on the choices which are made.

I think when you focus in on one particular tax and one particular tax increase, it is important to take it into some context in terms of what is going on around us as well as what other taxes are being used immediately preceding. For example, this particular increase in retail sales tax is the first such increase for a very long time. In the intervening years, there have been considerable increases in use of the personal income tax area: general increases on the part of the province and temporary surtaxes which have been continued or otherwise built in as regular additions to the provincial rates.

I think too when you are judging the progressivity or regressivity of taxes, it is important to take into account to what extent they have increased as a proportion of disposable income as well as what has been done in the area of offsets, tax credits, exemptions and other such moves. For example, you say the retail sales tax is the most regressive tax, and I suppose conventionally that is the case in textbooks, perhaps preceded by only one other tax, maybe

municipal tax. But clearly you would not be able to make a final judgement on the incidence of municipal tax unless you somehow or another were in fact able to correlate it with people's incomes and take direct account of the tax credits that we offer to people below 65 and the tax grants that we offer to people above 65.

In the period running up to a budget, yes, the ministry does participate with Treasury, in the sense that we judge it to be our particular role to respond to various "what if" questions or options that they might pose to us in the sense that if the government were to change taxes in this particular way, what difficulty they might encounter, how might they be best implemented, when they can implement them and so on.

Essentially, the ultimate choice of which taxes are raised is a matter of the Treasurer and however it is he goes about getting his support in the government.

Mr. Laughren: I understand that. Thank you. When you raised this tax one per cent under section 2, Minister, how did you then determine what would make that one per cent less regressive by implementing tax credits? Did you do that? Who did the tax credit work to make sure this one per cent did not totally stick it to low-income people any more than it would have to? It automatically does, but the tax credit ameliorates the impact on low-income people somewhat. I am wondering how you measured that when you were contemplating this one per cent increase; you must have done it in tandem with the tax credit. Am I right or wrong?

Hon. Mr. Grandmaître: This was done through Treasury and, no, I cannot answer that question.

Mr. Laughren: Although this ministry administers the tax credits, right; it collects them?

Hon. Mr. Grandmaître: Yes.

Mr. Russell: We administer the tax credits to people over 65.

Mr. Laughren: Only those?

Mr. Russell: The others are claimed through the Ontario income tax, which is administered by the feds. It is the purple form. That credit is related to income. I think Treasury has published, or perhaps otherwise provided this committee with incidents, studies and series.

Mr. Laughren: Right. But it is not a fact that since the tax credits were introduced in 1975—

Mr. Russell: It had various formulations over the years.

Mr. Laughren: Right. They have not kept up with the consumer price index. We are about $300 million short as a province on the total amount of tax credits. That is why it bothered me when I saw this one per cent increase and then an announcement that there was going to be increased tax credits, which was announced in the budget as well, but it had nothing to do with keeping pace with the CPI, which would have ameliorated the problem of the sales tax increase on people.

Mr. Russell: It is probably also the case that the increase in the

tax over the years has also not kept up with—

Mr. Laughren: What has not?

Mr. Russell: The tax as a rate of charge on disposable income, which I suspect has not kept up with the increase in income or inflation or whatever. You would have to take those two things into account and come to some sort of net present value.

Mr. Laughren: I would certainly hope not. If you look at the real wages of people in Ontario in the last—I had better be careful of my years, because I do not have the data in front of me, but it is not a pretty picture. Real wages have suffered in recent years—perhaps not this past year, but in recent years they have suffered. It is a very strange argument to make that sales tax increases have not kept up with inflation.

Mr. Russell: I did not quite say that. It certainly should be put in context with other taxes. We know for sure that income tax, whether it is on real purchase value or some deflated value, has increased absolutely and relatively. We know our rates, both federal and provincial, are higher now than they were before.

Mr. Laughren: And you get your share of that, right?

Mr. Russell: We get our share, as I said, provincial and federal. The income tax area has been used quite rigorously by both levels of government across Canada fairly systematically in recent years. I do not think necessarily quite the same conclusion can be made about consumption taxes, and there I would include municipal taxes. This may deserve a little bit more study, but I suspect you might not be quite right.

You said: "Why retail sales tax? Because it is the least regressive tax of them all." Implicitly, I took that to mean, "Why on earth don't you use the income tax law, if you have to make those choices?" I suspect you will find that the income tax has been used rather more rigorously and is certainly closer to what might be thought of as being the competitive boundaries of that tax imposed by other jurisdictions, in the United States or elsewhere.

1720

Mr. Laughren: I do not have any quarrel with an array of tax collection schemes, and I think "scheme" is the right word. I do not have any problem with an array of schemes, but I think a province as wealthy as Ontario has the wherewithal to remove the really obscene, regressive aspects of it, and the province has not done that.

If you look at the numbers, Ontario taxpayers do not rank well in Canada when it comes to taxes based on income. We do not do well. You might want to argue with me on that, but we provided the Treasurer with all the charts. I would not do it to the ministry here, because we have done it with the Treasurer once already, prior to the budget, about where Ontario ranks. It is not a pretty sight.

I do not know how you can sit there—not you, deputy. As I said one time, the ministers come and go, but the deputies are there providing stability to government. I do not know how the minister can sit there and see, within his tax regime, a family that earns $10,000 less than the poverty level as established by Statistics Canada, not by an antipoverty organization or the

New Democratic Party, paying Ontario income taxes.

You can say we are not debating income tax here, and that is absolutely correct—I can see the chairman getting edgy here—but the sales tax makes it worse. It is based on consumption, not on income; so there is no question that sticks it to the low-income people yet again. You can talk about your credits all you like, but I do not think you will, because we are debating the sales tax increase here.

I do not know how you can sit there as a Liberal minister who campaigned on the idea of reform and be happy with a tax regime that makes people earning $10,000 under the poverty level pay Ontario income tax. I do not know how you can do that. It must jar you when you look at that.

Mr. Chairman: It is a rhetorical question, Mr. Laughren.

Mr. Laughren: No, it is not rhetorical. I was hoping the minister would indicate that at least he thinks about it.

Hon. Mr. Grandmaître: Maybe I can help the member and tell him, yes, we do look after our low-income people.

Mr. Laughren: Nonsense.

Hon. Mr. Grandmaître: I would like to point out that the new property and sales tax credit programs will deliver $144 million in tax credit benefits to over 1.8 million low-income Ontarians to ensure fair property and sales tax burdens.

Mr. Laughren: That is a lot of nonsense.

Hon. Mr. Grandmaître: Sales tax credits will be set out, $100 per adult and $50 per child, more than doubling the total benefits for low-income households under this program.

Mr. Laughren: Figure out your consumer price index in there. That is a lot of nonsense.

Hon. Mr. Grandmaître: Under the $40-million Ontario tax reduction program, 350,000 low-income tax filers will pay no Ontario income tax. In 1989, another 30,000 individuals and families will no longer pay OHIP premiums. I think we are looking after our low-income earners very well.

Mr. Laughren: Answer the question about being $10,000 under the poverty level then. Why do you allow that?

Hon. Mr. Grandmaître: I just pointed out that more and more of our low-income earners in Ontario do not pay income tax.

Mr. Laughren: That is nonsense. It is not even keeping up with the consumer price index.

Mr. J. B. Nixon: Mr. Chairman, I am having trouble hearing the minister speak for the interjections of the member opposite. I think he could restrain himself during the answers being given.

Mr. Laughren: I know, you do not like talking about low-income people.

Mr. J. B. Nixon: Mr. Chairman, I really resent Mr. Laughren coming in here and throwing around all sorts of wild accusations--

Mr. Laughren: That's tough.

Mr. J. B. Nixon: --without substance whatsoever, talking about who cares about what, as if he were the sole purveyor of truth, goodness and fairness.

Mr. Laughren: No, I am looking for some answers.

Mr. J. B. Nixon: His wild allegations without any substantiation offend this entire committee.

Mr. Laughren: What allegations?

Mr. J. B. Nixon: I suggest either Mr. Laughren leave and talk to the wall, or the mirror more appropriately, or this committee meet somewhere else without his presence.

Mr. Laughren: I did not make one wild allegation; not one.

Mr. Chairman: I think we have had an interesting debate between yourself and the minister, Mr. Laughren. Mr. Kozyra has a question or a comment.

Mr. Laughren: Are we not going to get answers from the minister?

Mr. Kozyra: I have a comment, and it relates to one of the more serious statements by Mr. Laughren. I was a full-time member of the committee and was, I must say, very impressed by what seemed to be the unanimous agreement of the members that any proposals and recommendations do stress the progressivity as opposed to regressivity of any tax increases contemplated.

Mr. Laughren: I noticed that, right.

Mr. Kozyra: At the same time, we are all impressed by the somewhere between $10 billion and $14 billion of extra requests from programs and associations. As a member of the official opposition, Mr. Laughren strongly supports those very groups and associations and those causes, as do we, for the most part as well. They are very legitimate requests.

Faced with that kind of pressure on the government for $10 billion to $14 billion in extra demands, I feel that the one-cent increase in the tax, as attractive as that was in that it raised almost instantly $900 million, showed very commendable restraint in terms of that kind of pressure and demand for extra services and extra programs and so on.

Mr. Laughren: It was savage.

Mr. Kozyra: When you look at the tax credits that were installed to offset the effects on the people most affected, then you could say that if that one-cent increase was not made progressive, it was at least made neutral with those tax credits. I think, in view of the total picture and not just the narrow one that you show--

Mr. Laughren: No, no. That is where you are off. You are buying his line. It is nonsense. The taxpayers are not keeping up.

Mr. Kozyra: I am presenting the total picture, Mr. Laughren, rather than the narrow tunnel vision to stress your point on that particular thing. Even with my limited experience, I can see that much.

Mr. Laughren: Is that parliamentary?

Mr. Chairman: Are there any amendments to Bill 122, and if so, to what sections?

Mr. McCague: As I have said earlier, so much time having elapsed since this was introduced and so much money having been collected, to make an amendment to the bill that would move it back just does not make any sense at this point in time. It would have, had we got at it in the normal period of time.

I would like the record to show my disapproval of the increase, and then I would like to go through the bill, if you would agree, section by section. I have a couple more questions.

Mr. Chairman: All right, we will deal with section 1.

Section 1 agreed to.

Section 2:

Mr. Laughren: I am very unhappy with section 2.

Mr. McCague: I thought so.

Mr. Laughren: This section increases the regressive sales tax from seven per cent to eight per cent, and I really am not happy with the minister's response when I was trying to get from him how this one per cent increase affects someone who lives $10,000 below the poverty level and pays provincial income tax. How does he justify a one per cent sales tax increase on these people, knowing full well that the sales tax credit does not compensate for all of the purchases of someone at that income level, or any income level for that matter?

A sales tax credit eases it a bit, but nobody pretends—I hope the minister does not pretend—that the sales tax credit makes up for all the money, all the sales tax that is collected from someone whose income is $10,000 less than the poverty level and still pays Ontario income tax. I do not think the minister would claim that. If he would, I would sure like to hear him put it on the record.

1730

Hon. Mr. Grandmaître: I have answered that question.

Mr. Laughren: No, you have not.

Mr. Chairman: The chair is certainly quite cognizant of your views, Mr. Laughren, and the minister's views. You have heard an explanation as to the extent to which the tax credits are administered by the Revenue ministry. I think all that is really left is for you to decide whether or not you wish to propose an amendment to section 2 and, if not, to vote for it or against it. You can certainly register any displeasure you have by voting against it.

Mr. Laughren: Would you disagree with me that the minister did not answer my question as to how much money someone who earns $10,000 below the poverty level spends on goods and therefore pays on sales tax? How much sales tax is collected from that family living $10,000 below the poverty level?

Mr. Chairman: It is not the chair's job to decide whether or not a question was adequately answered. The question was asked and it was addressed. That is all I am going to ask the minister to do.

Mr. Haggerty: That question can be turned around too, by saying that every time people with a higher income go out and buy a higher-priced car they are paying more and they can afford it. In other words, they are contributing more to the economy by buying that automobile and paying a higher sales tax.

Mr. Laughren: Yes, but you know that it is a proportion of their disposable income.

Mr. Haggerty: I think the member's suggestion is that perhaps he is looking at the salary that the members received here—notice of it anyway: the increase of 4.7 per cent. That is just the cost of living. Maybe what you want to suggest is what the committee should be looking at, to say that the sales tax rebate going back to those at a lower income should be geared to the cost of living; in other words, 4.7 per cent.

Mr. Laughren: I do not expect Mr. Peterson, Mr. Nixon or Mr. Conway, sitting on their padded assets, to care very much about those kinds of things.

Mr. Haggerty: I just threw it out to you, that maybe this is what you should direct the committee to take a look at.

Mr. Chairman: Are there any amendments to section 2?

Mr. McCague: I just have a comment. The amount of money that this government has increased in the past four years, the cumulative effect of that, is something over $30 billion. It is difficult for the public to understand that figure when you talk in billions. Very few understand it. It is for that reason that it is not clear to myself, the members of our party or to the public that I am recording my opposition to the increase to eight per cent.

Mr. Chairman: Are you ready to vote on section 2?

All those in favour? Opposed?

Mr. Laughren: Could we have a recorded vote?

Mr. Haggerty: Do you have a slip here? Have you substituted for somebody?

Mr. Laughren: I am shocked and appalled that you would ask.

Mr. Haggerty: I know you would not mislead the committee. Is he a legal substitute?

Mr. Chairman: Yes, he a legal substitute.

Mr. Haggerty: I just thought it may have slipped your mind. We had a member last week from your party who tried to pull off something like that. We

were more than generous and said to go ahead and vote.

Mr. Chairman: All NDPers are not alike, Mr. Haggerty. Mr. Laughren, you want a recorded vote of the names of the committee members.

Mr. Laughren: Yes, how they voted in support of a one per cent increase in the sales tax.

Mr. Chairman: Fair enough.

Mr. J. B. Nixon: It was just my luck to be substituting today.

Mr. Chairman: All right. The clerk will call the roll.

The committee divided on section 2, which was agreed to on the following vote:

Ayes

Cleary, Haggerty, Hart, Kozyra, Nixon, J. B.

Nays

Laughren, McCague.

Ayes 5; nays 2.

Mr. Chairman: Mr. McCague, do you wish me to go through the rest of the sections singularly?

Mr. McCague: Ask Mr. Laughren first.

Mr. Chairman: Mr. Laughren?

Mr. Laughren: I think you should ask Mr. Nixon. It is his bill. I mean Bob Nixon.

Section 3:

Mr. Chairman: Are there any amendments to section 3?

Mr. McCague: I can see the rationale here, but it is a $100-a-day penalty for not having a vendor's permit. There used to be some effort to make the penalties under a bill consistent. You have $100 a day there, and I partially understand it, but then you go straight across to section 7 and you suggest a maximum of $2,500. I guess you cannot apply the same penalty to both things and you probably do not take anybody to court on subsection 3(6).

Mr. Williams: If I could comment on it, of the two areas, I guess one is more serious than the other. We would not be taking someone to court, as you say, for 300 or 3,000 days for which they did not have a permit at $100 a day. It is simply to introduce a penalty which shows that it is a serious matter. There was not a particular penalty for it previously. The section 7 one is a maximum penalty, which is the maximum under a sliding scale.

Mr. McCague: Not being of a legal mind, does a person who was negligent for 100 days or a year have any recourse to the courts under subsection 6?

Mr. Williams: They would have to be charged for each day for which they did not hold that permit. It has not been the practice of the ministry to charge someone for each day under those circumstances but simply to impose a fine of $100 or $200 to show that this was a serious offence. There is no maximum.

Mr. McCague: It is also very clearly stated that it is not less than $100 a day. How do you find somebody guilty for 100 days and not charge him?

Mr. Williams: They would have to have been charged for 100 days. We would not charge them for the 100 days. There are other sections of the act which are similar to this. Our practice has been to do it on only three or four occasions.

Mr. McCague: I am not sure any minor students of the law would feel that comfortable, if that is what you would do, when it states that it shall be not less than $100 a day.

Mr. Williams: It is not less than $100 a day and yet it does say "or part of a day on which the offence occurs or continues." That means that it will be $100 and it could be 10 times that for 10 days. You are correct there.

Mr. McCague: I am a bit leery on that one, but if you--

Mr. Russell: Let's put it this way: We could not use this particular section, this penalty, as a device for getting at evasion. We have other parts of the act which give us rather more powerful penalties and sanctions which can be related to the degree and the persistence of wilful fraud or evasion.

This is primarily an act of discipline, if you like, or an incentive to be sure that people take seriously the fact that they must come forward and identify themselves as being in the retail business.

1740

Mr. McCague: I am sure it has passed all the legal tests and it is not for me to argue.

Mr. Russell: I suppose we can be challenged.

Mr. Chairman: I think it often rests a lot of discretion in the prosecutor, does it not? That is your concern, which hopefully will be judicially exercised.

Mr. McCague: I think, though, you will admit that it is sort of in the "shall" more than the "may" category, even though it does say that it is liable. I guess you are not liable until charged, but it does put a fairly heavy weapon in the hands of the person who is doing the investigating.

Mr. Russell: I guess it is a matter of judgement, but here is an example of the way it might be used differentially if we come across, as we do every day, people who, for one reason or another, have set up a business and have failed to get themselves registered. For the most part, it is fairly convincing that they have not gotten around to doing it or they just did not realize what they had to do. In that case, I do not suppose we would particularly think of taking action against them, or if we did it would be for a token amount, one day or something like that.

On the other hand, there are people who are in the habit of setting up a business, not being registered and doing business in an organized fashion. By the time we come along and find out about them, the business is wound up and the same people go on then to set up another business. In those situations, I would imagine we would use this device rather more rigorously.

Section 3 agreed to.

Section 4 agreed to.

Section 5:

Mr. McCague: I know that the ministry has decided, for one reason or another, to lay off garage sales, but it is an item on which I get a lot of complaints, not because some people are moving out of town and decide they want to get rid of their excess baggage through a lawn sale, a driveway sale or whatever they want to call it, but because they are kind of a damned nuisance in a neighbourhood. They start about seven o'clock in the morning and the street is lined with cars. There are people doing it. You know that. There are people doing it fairly frequently. Even three times a year is somewhat of a nuisance if you are out around the pool or whatever. These kinds of things are being watched.

I would have thought, again from a nonlegal point of view, that somehow —not having section 5 here in its entirety—subsection 5(1) or subsection 5(4) might have caught those kinds of things. If it were the true letter of the law, would garage sales be caught and is it a fact that other than those who are sort of in the business, you have decided to turn sideways on it?

Hon. Mr. Grandmaître: What you are saying is that every operator of a garage sale or whatever should have a permit and charge tax. Is that what you are saying?

Mr. McCague: It is a difficult call, but there are a lot of people who are in the business. Your deputy or you said that you are zeroing in on anybody who is definitely in the business. I think it is three a year or something. But the biggest number of garage sales are created by other garage sales. "Let's take it home and see what we can get for it next Saturday."

Mr. Russell: Speculation.

Mr. McCague: That may be. There may be a capital gain, I do not know. I think you understand the point I am trying to make. I guess really the answer that you are giving me today—and I do not object strongly to it—is that you are really leaving it up to the municipalities to license if it is required to have one, and if there is then an abuse of it two, three or four times a year, that somehow those get caught.

Hon. Mr. Grandmaître: For instance, not in Ottawa-Carleton but in Ottawa, you are only allowed two garage sales without a municipal permit. That is the municipal bylaw. I know of other municipalities where it is three. I do not know of any municipality where it is only one sale. I guess it could be better controlled by the municipality, but at the same time we are losing—I think this is what you want to single out—that eight per cent sales tax. They are a nuisance, as well; that is your point.

Mr. McCague: People who have the sale would be very upset if you imposed an eight per cent sales tax, but people who see the tax as a deterrent

to their having so many of them would be happy. There you have it. You are the government. I am just telling you there is a problem and maybe you should do something about it. What I would do if I were in your position, I have no idea.

Mr. Laughren: Let the record show that I love garage sales. I think they are great. I would hate to see the government stifle free enterprise——

Mr. Kozyra: Hear, hear.

Mr. Laughren: ——by imposing a tax on garage sales. I think they bring a community together. I think they are a very nice way of meeting your neighbours. I would dare you to tax garage sales. I would dare you to tell those people with their little sales in their driveways that you are going to collect eight per cent from them, or even the seven per cent that you could have collected from past sales.

I would really like to see what would happen if the minister decided to have a press release saying he has decided to tax all those bad guys for disturbing George at his pool. I want to see the reaction from the public. Nothing would surprise me. I am sure you will not talk to the Treasurer of Ontario before you do it. I just want the record to show that I do not believe that garage sales should be taxed.

Mr. J. B. Nixon: How is "resale" defined?

Interjection: It says "resale" in subsection 5(1).

Hon. Mr. Grandmaître: It is not defined, I am told.

Mr. J. B. Nixon: I am just trying to understand the situation. What sort of people sell for resale?

Mr. Williams: A wholesaler sells to a retailer who sells.

Mr. Russell: It is hard to describe the final point at which a good is finally a purchased thing consumed.

Mr. J. B. Nixon: I am satisfied.

Mr. Haggerty: I am like my colleague. I could not support the suggestion to apply a sales tax to a garage sale, because I can see in my area they have served a purpose in the community. Half the time the stuff may be thrown out for trash on the weekend or something like that. It is an extra cost to bury that stuff on those already overloaded waste disposal sites.

I suggest to you there are some good things that come out of it. In many cases there are a number of charitable organizations that run garage sales and they are usually buying skates or something like that for minor hockey. There is always something good. It is a problem, I know, for municipalities to police it. I know that the minister, when he was Minister of Municipal Affairs, has been attacked many times, I think by someone's saying, "Bring in some legislation." But the majority of the municipalities do not want to tackle it, because they know what it means out there to the community.

I suggest that sometimes it is a benefit to those persons on a lower income to pick up a bargain at some of these sales. Many of those that are not sold go to the Salvation Army utility shop or whatever they may call it. I think it is a good way for people to make use of it out in the community and

there are some good buys at some of them out there.

Mr. Laughren: Right.

1750

Mr. Chairman: Subsection 5(4), the clerk points out to me, contains a split infinitive. He would suggest that it might be better English to say "to identify clearly" than say "to clearly identify." The legislative draftsman says that is a purity that we do not always adhere to any more.

Mr. Laughren: To which we do not always adhere.

Mr. Chairman: I point that out to the committee.

Mr. Laughren: You just dangled a participle.

Mr. Chairman: I just dangled a participle. Oh, my gosh, it is getting late.

Section 5 agreed to.

Sections 6 and 7 agreed to.

Section 8:

Mr. McCague: Maybe we should insert in there "the 11th day of January, 1989."

Section 8 agreed to.

Section 9:

Mr. Chairman: Mr. Laughren moves that the words after the word "is" be struck out and that the section read,

"The short title of this act is An Act to amend the Retail Sales Tax Act by increasing the Provincial Sales Tax from seven per cent to eight per cent."

Any discussion?

Mr. Laughren: I think it is more honest. When people pick up the act--as it will become--it will clearly state what is contained therein. The way it reads now, it is just an amendment to the retail sales tax. It would be more precise, I understand, if you said--and perhaps I should amend my own amendment-- "An Act to amend the Retail Sales Tax Act by increasing the Provincial Sales Tax from seven per cent to eight per cent and other matters."

Motion negatived.

Mr. McCague: I think the only good thing about it is the name. I am clear about that.

Section 9 agreed to.

Bill ordered to be reported.

The committee adjourned at 5:55 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC OUTLOOK AND FISCAL REVIEW

THURSDAY, JANUARY 12, 1989

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Neumann, David E. (Brantford L) for Mr. Cleary
Poole, Dianne (Eglinton L) for Mr. Pelissero

Also taking part:
Laughren, Floyd (Nickel Belt NDP)

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:
Ploeger, Henk M., Acting Assistant Deputy Minister, Office of Economic Policy
Dorey, Steve, Economist, Macroeconomic Analysis
Silk, Qaid, Director, Economic Forecasting Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 12, 1989

The committee met at 10:10 a.m. in room 151.

ECONOMIC OUTLOOK AND FISCAL REVIEW
(continued)

The Acting Chairman (Ms. Hart): I see a quorum, so perhaps we can get under way. I will be filling in briefly as chair until Mr. Ferraro comes.

I would like to welcome the people from the Ministry of Treasury and Economics who have consented to come back and tell us a bit more about what we were dealing with last time. I ask you to introduce yourselves for the record and then to proceed as you will.

Members, I do not know how you would like to handle it. Questions as the presentation is going through? Is that satisfactory? If that would be all right with the Treasury officials, then perhaps that is the way we will do it. Please proceed.

Mr. Ploeger: Good morning, ladies and gentlemen. I am Henk Ploeger, acting assistant deputy minister of the office of economic policy. I have brought with me the director of the economic forecasting branch, Qaid Silk, and Steve Dorey, a senior policy adviser in the economic forecasting branch. They will start off the presentation on the macroeconomic aspects of the economic forecast. Later on, I will introduce other people who will take separate chunks of the presentation.

Incidentally, I suggest that as we go through the slide show, you may want to interrupt with questions. If you jump the gun on us sometimes, we may want to suggest you hold off on certain questions until we get to the subject matter.

Mr. Dorey: I understand everyone has a copy of the slides from last week. Just before I present the slides, I would like to say a couple of words about the context. We have been doing this presentation for the committee for three years to provide an economic scenario for the budget. Last year, it was done by Dr. Purchase in the wake of the stock market crash. That clearly influenced our thinking, as it did that of other forecasters. We were among the most optimistic at that point, but as it turns out, we were not optimistic enough.

We subsequently released another forecast with the budget that again raised most of our estimates and turned out to be much more accurate. As we go through the outlook for this year, I will be glad to review how our two previous forecasts compare with the actual performance for 1988, if anybody wants to pursue that, but I think I will concentrate on the performance in 1988 and the outlook for 1989.

The first slide we have here is an overall summary of our outlook for 1988. As I said, the economy turned in a very good performance, matching the kinds of numbers we saw in 1987. We are currently expecting that the 1988 final real growth number will be about 4.5 per cent. That is quite impressive.

Job creation is expected——we actually have the final job creation number. Last week, we were showing 180,000 jobs for 1988; the final number is 181,000.

This year, investment has been the leading sector in the economy. Consumption and housing, while performing much better than most people had expected, have moderated to some extent from the pace in 1987. For 1989, we expect the economy to moderate. We expect growth to be a still healthy 2.9 per cent, but well below the 4.5 per cent we expect for this year. Again, we expect business investment to be the leading factor in real growth next year. We expect that consumption and housing will moderate somewhat more and that trade will be somewhat of a drag in 1989.

The slowing we see in 1989 reflects the fact that savings have been run down by consumers in the society, that we have an unemployment rate of five per cent and that there is not the room to bring in spare capacity and spare workers to keep up the same kind of growth pace we have seen over the last five or six years, particularly in the southern part of the province.

In terms of job creation, we are calling for 105,000 jobs for next year. That reflects changes in both the supply and the demand sides; that is, migration into the province has slowed somewhat and we are seeing the numbers of young workers coming into the labour force slowing, simply because the baby boom has passed and we are now into a baby slump, if you like. For 1988, the number of workers in the 15-to-24 age group declined by 26,000, and that is going to continue. That simply gives us fewer workers to draw on and therefore less job creation over the next few years.

In terms of inflation, we saw inflation come down from 5.1 per cent in 1987 to an estimate of 4.7 per cent for 1988. Food prices and energy prices were a big part of that decline. We expect inflation will rise a little bit next year. Again, that will reflect, in part, food price increases resulting from the drought, and also to some extent the fact that the dollar is not expected to rise as much next year as it did this year. Over the past two years, the rising dollar has been a dampening effect on inflation. Since we do not expect the dollar to keep rising at the same pace it has been in the past, that will moderate the downward pressure on inflation.

The unemployment rate has come in at five per cent for 1988, down from 6.1 per cent in 1987, and we expect it to stay at about the same level in 1989; that is, the labour force, employment and unemployment will all be growing at about the same pace.

Mr. Morin-Strom: I noticed we had a drop in the unemployment rate by more than one per cent from 1987 to 1988, which came, I presume, from this 180,000 net new jobs; I take it that is net new jobs.

Mr. Dorey: Yes.

Mr. Morin-Strom: You are showing no change in the unemployment rate despite the creation of another 105,000 net new jobs in 1989. Does that imply the growth of the workforce is a little over 100,000 workers a year?

Mr. Dorey: Yes. I think a growth of 107,000 in the workforce is what we are calling for. Migration remains quite strong and that is the main source of the new workers.

I guess what I would like to do is take a look first at the key

assumptions that underlie this forecast, then take a look at the components of growth and look at them individually after that.

Exports to the United States are a very big part of our economy and therefore we follow developments in the US quite closely. What we expect to see is that the US economy will slow down in 1989 from its very good pace, its unexpectedly good pace in 1988. In 1988, as in Ontario, consumption and business investment were very, very strong, much stronger than people had expected, and there was a sharp turnaround in the United States in trade performance. The US trade performance reflects the fact that the US dollar has declined by around 50 per cent against both the yen and the mark over the past three years.

For 1989, we expect growth to slow somewhat. In part, that reflects the impact of higher interest rates, which will slow auto sales, cause further weakness in the housing sector and cause business investment to slow from 10 per cent real growth to about six per cent. We expect less trade progress next year, in part because the dollar depreciation will not be as strong and in part because growth in other major trading partners of the United States is not expected to be as robust as it was this year. We also expect lower employment and income growth in the United States next year, which should be a drag on consumption.

With respect to oil prices, you can see that oil prices drifted down through most of 1988. Over the past few weeks they have been rising. The oil price we show here is the price in Ontario. The way it is calculated is that it is the Edmonton price plus transportation costs, lagged a month to take account of the lag between production of oil and its delivery to Ontario. That roughly is the west Texas price plus US$1. I think the west Texas price this morning is US$18.15, so we are looking at a price of something like US$19.15 this morning, somewhat above our forecast range. Our forecast range is US$15 to US$17 for this year.

1020

Prices have obviously been unstable. We do not expect prices will remain at this morning's level. We expect to see moderation through the year. We still think the range of US$15 to US$17 is a reasonable estimate. We know there are large stocks of non-Organization of Petroleum Exporting Countries oil and we do not think the chances of OPEC quotas holding through the year are particularly good, so we are operating on the assumption of an average of about US$16 per barrel oil delivered in Ontario.

Financial markets are also central to our forecast. We have seen that since 1986, the gap in inflation rates between the US and Canada has disappeared. In 1986, the Canadian inflation rate was 4.2 per cent and the US rate was 1.9 per cent, for a gap of 2.3 per cent. At that point, a wide differential in interest rates between the two countries could be justified by the need to compensate people for what they were losing in inflation.

In 1987, that gap narrowed with a Canadian inflation rate of 4.4 per cent and a US inflation rate of 3.7 per cent, for a gap of 0.7 per cent. In 1988 and 1989, we think the Canadian and US inflation rates will be virtually identical: 4.1 per cent in 1988 and 4.9 per cent in 1989. That is reflected in the narrowing here of the inflation rates.

Nevertheless, Treasury bill spreads--that is, the yields on three-month Treasury bills--have remained quite high. Yesterday at noon, the spread was

287 basis points, still a very high spread by historical standards. We usually have not seen spreads that large, except when we have had foreign exchange crises and the Bank of Canada has tried to defend the dollar. That suggests to us there is some room for narrowing the spreads if the Bank of Canada chooses to do so.

The bank rate set by the Bank of Canada is calculated by adding a quarter of a percentage point to the three-month Treasury bill yield. It was 11.2 last Thursday; in today's auction, they expect a jump of something like another two tenths of a percentage point, which again takes us well above our forecast range. We had expected, and the documents suggest, that interest rates were likely to rise by one-half to one per cent in the first half of 1989 and then to moderate later in the year as signs of slower growth in both Canada and the United States become more evident.

The Acting Chairman (Ms. Poole): Mr. Dorey, I wonder if I could interrupt for just a moment. I have a message from the control room. Apparently, they cannot pick you up on camera seated where you are. I wonder if you could move over one. It may make it slightly difficult for you with the projector, but we would appreciate it.

Mr. Dorey: Fine.

The exchange rate closed yesterday at US83.51 cents, which is again somewhat above the US80- to US83-cent range we had forecast. If we want to look at the bank rate in context, the average bank rate through 1987 was 8.43 per cent; the average bank rate through 1988 was 9.62 per cent; we are currently, this morning, at 11.2 and we may be at 11.4 by two o'clock this afternoon. The average we expect for 1988 is about 10.5 per cent. So even though we expect some moderation in interest rates later in the year, we still expect interest rates, on average, in 1989 to be about a full percentage point above interest rates in 1988.

That wide interest rate spread has helped to produce sharp appreciation of the dollar. In 1986, the dollar averaged US71.97 cents. It appreciated by about 5 per cent to average US75.4 cents in 1987 and it averaged US81.25 cents in 1988. There has been an appreciation of about 15 per cent in the Canadian dollar over the past two years. That has been the result not only of the very wide spreads on short-term interest rates; it has also reflected relatively strong commodity prices and the fact that growth in Canada has been considerably stronger than in most of the other industrialized countries.

We expect to see some moderation, some downward movement in the dollar, into our US80- to US83-cent range, over the course of this year, in part because we expect the Bank of Canada will be willing to let that spread narrow a little bit when it sees signs of less rapid growth. Also, we do not see the inflation gap narrowing any more--it has disappeared--and we do not think the Canadian inflation rate is going to be below the US rate, so we do not expect that to be a continuing source of upward pressure.

Mr. Haggerty: A question on that point, on the drop of the Canadian dollar: Are you expecting it to rise or drop in 1989?

Mr. Dorey: In 1989, we expect it to be in the range of US80 to US83 cents, so the top of that range is slightly below today's US83.5-cent level. We expect it to come back into that range.

Mr. Haggerty: This perspective is from the Canadian economy, not

from the American economy, where they are looking at and perhaps even forecasting that the American dollar is going down further. As the American dollar goes down, then ours will go up.

Mr. Dorey: The American dollar is expected to decline against most major currencies.

Mr. Haggerty: That is right.

Mr. Dorey: The Canadian dollar, we expect and I think most forecasters expect to decline slightly against the US dollar.

Mr. Haggerty: How do you arrive at that conclusion? The world economy is pretty well based upon the American dollar. If the American dollar slides, then ours will go up. Are you telling me there would be further manipulation of the Canadian dollar by the Bank of Canada, to say that it will go down by the same rate as the American dollar so we can keep that differential in there, 28 per cent or something like that? Am I correct in that? Is that what you are telling me?

Mr. Dorey: What I am saying is that even though the US dollar is expected to be under some downward pressure, the Canadian dollar has traditionally followed the US dollar, because so much of our trade is with the US. One of the factors that has contributed to the rise of the dollar is that both North American currencies rose quite strongly against the yen and the mark through the first half of 1988 and part of 1987. One of the things that did was to make Canadian bonds very attractive, so we had a large inflow of funds into Canadian bonds, which tended to push up the value of the dollar. If the US dollar is falling and the Canadian dollar is falling with it, relative to the yen and the mark, then that flow of funds is likely to dry up.

Mr. Haggerty: But the point then is that what you are really telling me is that the Americans will have some further difficulties in reducing the trade deficit. So their main goal is to reduce that trade deficit the world over, and this is perhaps one of the reasons we are in the free trade agreement with the United States. This is the point I think the Americans are trying to drive through—"We've got to reduce our trade deficit"—and they are going to pull everything they can to reduce that trade deficit.

One of the things I look at is they are going to drop that American dollar considerably to be competitive in the world. If we keep dropping ours, I do not know; there is some question about free trade and they are talking about the manipulation of the currency from one country to another to maintain a fair share of the trading market, you might say, so that they can be competitive.

1030

Mr. Silk: I think what we are saying is the following, that while you are quite right that most people expect the US dollar to depreciate in 1989 against European currencies and the Japanese yen, partly as a result of the fact that they do have a very high trade deficit with those countries—they do have a small trade deficit with us as well, in manufactured goods—the point is that we are saying that the inflation rate, the inflation gap, if you like, between Canada and the US is virtually not going to exist in 1989, unlike 1986-87 when our inflation rate was much higher than theirs. When it was much higher it was reasonable for the Bank of Canada to have much higher short-term interest rates in Canada relative to those in the US.

We are saying that this year the inflation gap will virtually diminish or evaporate and, consequently, there is no particular reason to have those interest rate spreads between Canadian short-term bills and US bills. If that were the case—i.e., if the Bank of Canada were therefore to allow that gap to be reduced a bit—then of course the pressure on the Canadian dollar would be reduced and the Canadian dollar would slide vis-à-vis the US dollar and both North American dollars would depreciate against European currencies and the Japanese yen. That is our forecast.

Mr. Haggerty: Yes, but when you look at that and say they are both going to drop, one of the difficulties you will find in the United States now where the dollar has dropped is they have had more foreign investment, buying power in the United States. They say, "Well, we've got the investment coming in." But there is some concern now by Congress, stating that who controls the investment may have a serious impact upon the economy of the United States.

Mr. Silk: There is a growing concern about foreign direct investment in the US, yes; but our view of the Canadian dollar is that, vis-à-vis both the European currencies and the Japanese yen, it will move in tandem with the US dollar, depreciate against those. Vis-à-vis the US dollar, we are saying that there is some room for the Bank of Canada to narrow those interest rate spreads and therefore allow our dollar to slip a bit. It is currently slightly above the range we are forecasting. We are saying through the rest of this year it will be within that 80 to 83 US cents range.

Mr. Haggerty: The exchange rate, particularly on the Canadian dollar, will mean the success of the free trade agreement. I am basing that upon a witness who appeared before the committee stating that if the Canadian dollar rises above 80 US cents, we are becoming uncompetitive; in other words, we cannot compete then. That is the fear I have in that area.

Mr. Silk: Our forecast is not based on any sort of, if you like, political manipulation of the Canadian dollar. It is not suggesting that the government of Canada is attempting to restrain the exchange rate below some level that might be uncompetitive. We are not suggesting that. Although—you are quite right—obviously we can and we have done. We will come to that in the third part if this discussion, about what is a competitive rate for the Canadian exchange rate and how does it affect our competitive exchange rate when the exchange rate moves above 82 or 85 US cents.

Mr. Haggerty: I am glad you led me into that question, because that was the question I had in mind. Have you had any discussion with your federal counterparts in the sense of, say, what is the safety factor in the exchange rate or the value of the Canadian dollar in this particular area? What numbers are we looking at?

Mr. Silk: No, we have not.

Mr. Haggerty: You never got any signals at all from Ottawa, the Bank of Canada or anything like that in this particular area?

Mr. Silk: No, nor are we at all suggesting that the government of Canada is, if you like, politically manipulating the exchange rate. All we are saying is that based on economic factors, given that the inflation gap between Canada and the US has diminished or been completely eliminated, we are saying this allows the Bank of Canada room to reduce the interest rate spread and consequently the Canadian dollar does depreciate. That is a forecast.

Mr. Haggerty: Have you done any computer runs on different scenarios, indicating what you would consider the safety valve in the area of the value of the Canadian dollar to compete in world trade?

Mr. Silk: No, we have not, although we have done a different kind of analysis which says that obviously, when our exchange rate appreciates, it has certain effects on the Canadian economy. It reduces the inflation rate, but it does also adversely affect economic growth, reduces jobs and so on.

There are other people who have done a sort of analysis of how it affects different industries: At what exchange rates are different industries competitive or uncompetitive at current labour costs?

Mr. Haggerty: Do you have any information available to this committee? Could you make it available?

Mr. Silk: In the third section, when we talk about sectoral performance and prospects, we will be touching on that aspect.

Mr. Haggerty: Okay. I will let it go until then.

Mr. Neumann: What are you projecting for the balance-of-payments position for the country and the trade balance? Is this part of the underlying assumption for the projection of the exchange rate? Are you projecting a softening of our position there?

Mr. Dorey: Yes. We are expecting that the balance of payments will soften and that the trade balance will be a drag on the economy next year. That is particularly true in real terms.

What we have seen is that the terms of trade, that is, the prices of Canadian goods relative to foreign goods, have improved fairly dramatically as the dollar has appreciated and as resource prices have climbed, so that the decline in the trade balance is much less evident in nominal terms, in the terms of current dollars, than it is in the real trade numbers. So yes, we are expecting the trade balance to deteriorate somewhat.

Mr. Neumann: Have you taken into consideration the potential for increased inflow of foreign capital and investment as a result of the easing of Investment Canada's regulations under free trade and the opening up of investment in resources because there is a greater access for resource industries into the American market? There might be greater capital dollars inflowing into Canada to take advantage of the Canada-US free trade agreement that perhaps push up or create a greater surplus in our balance of payments. Have you looked at that at all?

Mr. Dorey: We have taken account of the capital flows involved there. Resource industries do not gain a lot more access to the United States under the free trade agreement. There are some provisions that will make the flow of capital somewhat easier and we have taken that into account.

Mr. Neumann: There was an article in the paper just this morning about approvals for increased exports of natural gas to the United States—approved by the United States—so I do not understand what you mean by saying they do not gain increased access, because that was directly attributed to the free trade agreement.

Mr. Dorey: I guess in that particular case, the construction of the

required pipelines had been blocked in the past by American authorities favouring the American utilities more, and I guess the free trade agreement does provide that is no longer possible.

Mr. Neumann: But what do you feel is the motivation for the increasing interest rates? I notice you are projecting a moderation of interest rates, but that does not seem to be the trend if you look at the last several months. The Bank of Canada seems to be wanting to push interest rates higher. We see even today projections of them going another quarter of a percentage point perhaps.

What is the rationale behind that, and do you not think that will influence further capital inflows into the country and push us towards a higher dollar than what you are projecting?

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Mr. Silk: The thing is that in the last two or three months, the interest rates both in Canada and the US have been moving up. Over the last year, in fact, both monetary authorities in the US and Canada have been worried about the vigour of economic activity and the fear of inflation moving up more dramatically than it has. Their concern has been to prevent an inflation resurgence. So they have been gradually moving up interest rates to try to restrain economic activity, to hold it to some kind of moderate level and therefore to try to keep the lid on an inflation resurgence. That has been their concern.

You are quite right: We have seen, therefore, interest rates move up in both Canada and the US. In the last few months, we have seen even more evidence of that. We are saying in our forecast that is true in the first half of 1989; we will see interest rates go up 50 to 100 basis points.

Maybe, as with all forecasters, we will turn out to be wrong. We will be in some areas, I am sure. In this particular case, we are saying that interest rates will move up. We have already seen some movement, and we are saying in the first half they will move up. Then, however, we are saying that with a moderation in economic activity and with no dramatic uptake in inflation, both the Bank of Canada in Canada and the US Federal Reserve will be less worried about an inflation resurgence and therefore will manage to ease off, because they have to be concerned at the same time about letting economic growth continue. They do not particularly want to be the people responsible for shutting this expansion off. They have to walk this fine tightrope between continued economic growth and an inflation spiral. So they will attempt to walk it as fine as they can, and if they see evidence that there is an inflation resurgence, they will allow interest rates to come down.

Based on our view of what will happen in the economy, i.e., fairly moderate but sustainable growth through 1989, we are saying consequently that in the first half interest rates will move up and in the second half they will moderate somewhat, not dramatically but somewhat.

As a result of what will happen to interest rates here and in the US, we are saying similarly the exchange rate may be a bit above what our forecast range is in the first half of this year. We think, actually, it is not likely to go much beyond 84 cents, but it might be a bit above 83 cents. It will move up and down, a bit volatile, as exchange rates tend to be. But for the year as a whole, it will trade at 80 to 83 cents and most probably in the second half, it will trade much closer to 80 cents than to 83 cents. That is our view.

In terms of the interest rate increases, meaning what kind of impact it has on foreign capital, these are sort of short-term interest rates. Obviously, with higher short-term rates in Canada and not necessarily high inflation in Canada, that does make it very attractive for people who want to lend short-term to Canadians. Therefore, that puts upward pressure on the Canadian dollar. But in a sense, that sort of short-term capital flows and they move in and out of currencies, depending on the attractiveness of investment and returns.

It is the long-term capital flows you were talking about in the context of either free trade or economic activity or economic prospects in the two countries. One must recognize that the free trade agreement will obviously have an effect over 10 or 15 years. It is not going to start having an effect right away. So we are saying there will be some increased capital flows as a result of that and other factors, and that does help prevent, in our view, the exchange rate from declining even further.

It is not so much a question of propping or boosting it up above that 80 to 83 cents but rather to prevent it from declining even further, because there are other things happening on the balance of payments on the merchandise-trade side and on the short-term capital flows that suggest downward pressure on the dollar. Adding all these things up, the short-term flows, the merchandise-trade and the long-term capital flows, balancing all this, adding it all up, our view is that the exchange rates will be in this range.

Mr. Neumann: I have one follow-up supplementary and then I will pass.

The Acting Chairman (Ms. Poole): A very quick one.

Mr. Neumann: Very quickly, is part of your projection for a moderation of interest rates based on your prediction that there will be a shift at the federal level towards fiscal policy to manage inflation rather than monetary, in the sense that in a pre-election period the federal government is restricted in its fiscal management of inflation and is more likely to hand out the goodies, whereas now that it has a majority it would be more likely to use reduction of deficit/higher taxes as a fiscal measure to reduce inflation and, therefore, the Bank of Canada will have less tendency to use higher interest rates and tight money as a way of managing inflation?

Mr. Silk: In this forecast, we have no policy change on the fiscal side. That is, we are saying that there is evidence of fiscal restraint on the federal level. So we are not necessarily saying that there will be additional fiscal restraint.

When the federal budget comes down in the spring, we will obviously have to incorporate that into our forecast and possibly revise that forecast if it brings in very significant additional restraint. But at this point we are not necessarily predicting policy changes of a dramatic nature.

However, you are quite right that the general view is that if fiscal policy, both in Canada and the US, were to become fairly restrictive, then that would allow the monetary authorities in both countries to ease up a bit on the throttle, because in some senses inflationary pressures would be eased by another source, left to the marketplace. But we have not incorporated additional restraint into this forecast.

Mr. Neumann: Thank you.

The Acting Chairman: Thank you, Mr. Neumann. I think we will probably proceed with the presentation.

Mr. Dorey: Slide 4 shows the growth of various components of demand within the economy, both over the 1985-88 period and in our forecast for 1989. As you can see, the three fastest components of growth over the 1985-88 period have been exports, business investment and residential construction. The least stimulative component has been government spending, in real terms.

The average growth rate over that period was 5.9 per cent and so consumption has run at 5.1 per cent, roughly in line with the overall growth in the economy for those four years.

For 1989, we once again expect business investment to be the strongest growing part of the economy. Exports look reasonably strong with 3.7 per cent growth, but--we have not put it in--we have a fairly substantial drag in the form of imports, which means that the net trade effect will be negative.

We can see that the consumption at 2.7 per cent in 1989 continues to grow roughly in line with the 2.9 per cent growth in the economy as a whole.

Mr. Neumann: Just a brief question of clarification. When you talk about imports/exports in the Ontario context, are you talking into and out of the country or into and out of Ontario, in other words, to other parts of Canada?

Mr. Dorey: Both. Both international and interprovincial trade.

Mr. Neumann: So, in exports here, are you talking about exports to Quebec as well as the States?

Mr. Dorey: That is right.

This slide repeats this information in a slightly different way. What it shows is the percentage of real growth: the composition of that real growth in the two periods. The dark bar shows the proportion of the 5.9 per cent growth accounted for by various components in the 1985-88 period. The light bars show the proportion of the 2.9 per cent growth accounted for by various components in our forecast.

Once again, you can see that over the earlier period, even though business investment grew at the fastest rate, consumption, being such a large component of demand in the economy, in fact contributed about 53 per cent of the total growth in the economy. Housing, which grew at a very strong rate, is a relatively small component, and therefore only contributed something like 13 per cent of the real growth over that period.

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The Acting Chairman: Mr. McCague has a question.

Mr. McCague: Mr. Neumann would like to answer this question, I am sure. Does that mean that the growth in government spending was more in 1989 than in the years 1985-88 combined?

Mr. Dorey: No. What that shows is that of the total 5.9 per cent per year growth in the earlier period, government spending accounted for 11 per cent of that total. You will see on the previous page that government spending

grew at 3.1 per cent a year during the earlier period, and given the size of the government sector, that accounts for, again, 11 per cent of the total growth. In the later period, we have much less growth to work with. We have only 2.9 per cent growth, so even though government spending, as you can see from the bottom bar, is growing more slowly in 1989 than in the earlier period, it is a large proportion of a smaller total.

Mr. McCague: The same results.

Mr. Dorey: If we take the major sectors of the economy individually, what we have seen is that over the 1985-88 period, growth in real consumption has consistently outpaced growth in real disposable income.

The way consumers have been able to finance that additional spending that exceeds their income growth is by drawing down their savings. We have seen the savings rate decline from a peak of slightly over 21 per cent in 1982 to a current level of about 11 per cent, which is the lowest level since the final quarter of 1971, so savings at this point are at a quite low level.

What that suggests is that if there is to increased consumption in the next few years, that will have to be financed primarily out of increased incomes, rather than out of reduced savings. The federal government has done a study that shows that the amount of discretionary saving in Canada at the current time—that is, savings other than in the forms of compulsory pension plans and so on—is very close to zero. It suggests that there is very little room for additional reductions in savings rates.

What we are looking for is that in 1989, consumers are likely to raise their savings rate marginally and, as a result, we expect that real disposable income growth will exceed real consumption growth marginally in 1989.

In the housing sector, housing construction exceeded everybody's expectations in 1988. Our current estimate is that there will be 98,000 housing starts in 1988. We do not have the final figures yet, but it would be quite close to that. That is the second-best year since 1973.

We expect that housing will moderate to about 86,000 housing starts next year. The factors contributing to that moderation will be higher interest rates, somewhat higher prices for housing and the fact that employment will be growing slower and population will be growing slower. All of those things will tend to produce somewhat fewer housing starts next year.

The Acting Chairman: Mr. Laughren has a question.

Mr. Laughren: Has the price of housing peaked in Metro?

Mr. Dorey: We certainly wish we knew. We see no signs that it has in fact peaked. It has continued to rise at a surprising level; it does not appear that the rise in interest rates we have seen so far this year has had any discernible effect on home prices, and we do not know where the peak is.

Mr. Laughren: Does that hold true for the rest of the province too?

Mr. Dorey: The rise in Toronto has been much more than in the rest of the province, in part because of rising land prices. But yes, we do not know where the peak is in the rest of the province either.

Mr. Laughren: Traditionally, is it not the case that residential

construction has a higher spinoff than most kinds of economic activity? Is this not the general assumption?

Mr. Dorey: I think that is not an unreasonable assumption. We know, for example, that business investment has a very large import content and residential construction does not have the same input content.

Mr. Laughren: When you do these numbers and graphs on residential construction, I was wondering how you build into it—I do not know what kinds of factors you use—or to what extent you spin off projections from other industries that are affected by it, such as appliances and rugs and all those kinds of things.

Mr. Dorey: Certainly, the amount of spending on consumer durables, on household goods, to furnish the huge number of housing starts we have had during the last two years has been a very positive thing for consumer spending in the province.

As you can see, the line there represents growth in residential investment and it is still up by over nine per cent next year. That reflects the fact that there is a lot of renovation still going on. Even though the number of housing starts is down, residential investment remains quite strong.

Mr. Laughren: Is it your feeling that—maybe you answered this and I missed it—the housing starts in Metropolitan Toronto will stay high or will be high? Are the price increases in Metro going to affect the number of starts?

Mr. Dorey: Certainly the price increases will have an impact. One of the options consumers face is to buy a home outside the Metro area where prices have not risen as much.

Mr. Silk: We have not done this forecast by region. We are forecasting for the province as a whole, so we cannot explicitly answer your question in terms of what level of housing starts we have forecast for Metro Toronto, the greater Toronto area, etc. We do not have that forecast.

Mr. Laughren: How elastic are housing prices? For example, if housing prices keep going up—and you have no reason to believe they are not going to in Metro—what is the relationship between that and housing starts? You must have some kind of idea of the link or elasticity there.

Mr. Silk: The other side, of course, is household family income, which is going to be used to support the payments of the mortgages. We obviously have forecasts, as you notice on the chart above, of personal disposable income.

One of the things in the housing thing that has to be remembered is that it is true that we as well were underestimating the strength in the housing sector last year. We forecast—

Mr. Laughren: By strength you mean starts.

Mr. Silk: Both starts and spending. We forecast in our budget 85,000 housing starts in 1988 and we expect, as we said, 98,000 housing starts. So we had underestimated it. There is no question about it.

Part of the reason in the recent past is that while interest rates have risen, what has been happening is that the long-term interest rates, the

five-year rates, have not moved up as much as the short-term, one-year or six-month, mortgage rates.

Consequently, people have been definitely moving in to long-term mortgages, which have not really been rising as dramatically as the short-term rates have been, so that interest rates have not acted as much of a damper on the housing sector as we might have expected. For 1989, we are saying that to some extent that will continue to happen.

Mr. Laughren: Is there anything here on real interest rates?

Mr. Silk: No, there is not.

Mr. Laughren: Have real interest rates not increased substantially in the last five years?

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Mr. Dorey: Real interest rates have certainly increased over the last two years. You could take the consumer price index chart and the bank rate chart and put them together; that would give you a pretty good idea of what has happened to real interest rates. You can see that the CPI numbers are relatively flat and interest rates over the past two years have risen quite steadily, that is, short-term rates. Long-term rates have not risen anywhere near as much. The five-year mortgage rate today is only half a per cent above where it was at the end of 1987.

Mr. Laughren: Okay.

Mr. Silk: On your question on the real interest rate, what happened, if my memory serves me right, is that in 1982 there was a sort of peak of the real interest rates and they came down fairly substantially between 1982 and late 1985 or early 1986. Since then, they have been gradually trending up. They are nowhere near their 1982 peaks, but they have definitely been on an uptake.

Mr. Laughren: It is fascinating what you said about Metro. I know you do not split Metro off separately, but somebody must. Perhaps it is the ministry that gives you your marching orders, the Ministry of Revenue. Anyway, we will not get into that, will we?

Am I reading too much into the link between housing prices in Metro and housing starts? I hear you saying that there is not very much of a direct link between the incredible price increases in housing in Metro and starts; that despite those increases, starts keep on coming.

Mr. Silk: The thing about the price increases, as I said, is that if the mortgage rates were to move up fairly substantially--we have sort of a gut feel about what the threshold mortgage rate might be to cut off this housing boom.

Mr. Laughren: I am talking about prices, though, not mortgage rates.

Mr. Silk: No, but my point about mortgage rates is that, in effect, the prices get reflected for individuals in terms of monthly payments. Sure, the price increases go up. If mortgage rates were also to go up substantially, then of course the increase in monthly payments would be quite dramatic.

Mr. Laughren: Okay, but speak historically then. Historically in

Metro, the increase in prices does not seem to have affected the housing starts. Is that a safe statement or is it not?

Mr. Silk: I would venture to suggest that, to some extent, what we have seen happening is that there has been a spillover. People wanting to move to Metro Toronto are obviously finding it fairly expensive and so they are moving into the various areas outside Metro Toronto. That has happened, so we have seen house price increases in neighbouring counties. There is no question about it; there is that kind of effect.

If you are asking me what the quantitative impact is, I do not have one, but we have seen increases in Ajax, we have seen increases in Oakville and Burlington, we have seen increases in York and so on. As a consequence of the rapid price increase in Metro Toronto, people are then moving out to outlying areas.

Mr. Laughren: What is even more terrifying, in conclusion, is that the government's announcement that it was sending all these civil servants to Sudbury has struck terror in the hearts of people who live in Sudbury, because they know that, given their incomes, prices of homes are going to skyrocket in Sudbury now. You may or may not wish to comment on your income.

Mr. Neumann: If you do not want them, we will take them.

Mr. Laughren: We are getting them, and it is appropriate that we are. I am just telling you that is what is happening already to the price of--

Mr. Ploeger: Sudbury does not have the kind of imbalance between demand and supply that you find in Toronto.

Mr. Laughren: No, but the civil servants will look after that, especially vacation properties.

The Acting Chairman: Just before Mr. Dorey moves on to the next presentation, we do have several supplementaries.

Mr. McCague: I just wanted to ask this question. You said in reply to Mr. Laughren that the prices in Toronto had moved up a lot more than in other parts of the province, but if you talk in percentage terms, then what is your answer?

Mr. Dorey: Just give me a second.

Yes, we can get those numbers for you. House prices in Toronto have moved up about 22 per cent this year from 1987. It is my impression that the increase is somewhat smaller in other areas, but we will have to get those numbers for you.

Mr. McCague: Thank you.

The Acting Chairman (Mr. Ferraro): Did you get your question answered, Mr. McCague?

Mr. Silk: We will try to find the information for you in the next little while.

Mr. McCague: Okay.

Mr. Haggerty: I was looking at the graph and at your bank rates for

interest. You can see in 1977, for example, that the bank interest was an average of about 9 per cent. You can see the increase then in 1977, that you had a building boom, you might say, because of the difference in the interest rate structure. As the interest rates go up, you are telling us that the housing starts will be going down.

Is it fair to the consumer who is caught in this bind of the manipulation of the money markets, you might say, from the Bank of Canada? Persons who are buying homes are the ones who are paying for this shot here. Is it used to slow down the economy? As the economy is booming and the question of inflation may set in, is the bank using this to slow down the economy?

If you are buying a home, you are spending money. You are spending money on the home, you are spending money on furniture and all the necessary things that go with the house. Would you say that the Bank of Canada or the government is manipulating this so that it can control the inflationary rate?

Mr. Silk: Definitely, one of the key objectives of the Bank of Canada is essentially to try to ensure that inflation is kept under control. Actually, the governor of the Bank of Canada has set himself the target of reaching zero inflation, if you like, for the country.

There is no question about it that when the bank feels that economic growth is too strong and therefore possibly wage pressures are going to be too high or general price increases in the economy are going to be too rapid, then it uses the tools at its disposal, principally interest rates, to try to slow down the momentum of the economy and, in turn, hopes to defuse the wage demands and the price increases that might be occurring as a result.

You are quite right that in the last little while the bank has been quite concerned about the strength, principally the rate of growth in the Ontario economy, and to some extent the increase in the Canadian economy as well, and has been using gradually moving up interest rates to try to rein in that growth.

Mr. Haggerty: How does a government meet the needs of the consumer out there, the person who wants to buy a home? There is a shortage of homes now out there in the market. If you have the consumers, persons who want to own a home, demanding the right to own a home and then you have the government at the upper level saying, "We're going to apply the brakes here; the interest rates are going up," then of course consumers say, "If I have to pay about 1.5 per cent above the normal rate, then it is too costly," if they are fixed in with a long-term mortgage or looking at an adjustable-rate mortgage. Even that is high at times.

How do we meet the demand for housing if we have one arm of the government applying the brakes and putting the cost up? Really, homes become not affordable housing, in a sense. I just sympathize with those persons out there having to buy a home today with the cost that is there, and built in with the high interest rates. In 1980, 1981 and 1982, I saw many home owners in my area who lost their property because of the high interest rates, moving from 11 per cent to 23 per cent and 24 per cent. I do not want to see that day ever come again.

I can see this manipulation causing havoc out there. Sure, it will slow down the economy, but it is also putting the cost of homes up. When you put the cost of homes up, you are adding to the inflation.

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The Acting Chairman: Is there a question?

Mr. Haggerty: Yes. The question is, does the direction in which the government is going make sense? If you put interest rates up, it increases the inflationary rate.

Mr. Laughren: Not a chance. Yes or no?

The Acting Chairman: I think that is a subjective and very difficult question for these gentlemen to answer.

Mr. Haggerty: That is not political; that is right. The government cannot have it both ways.

The Acting Chairman: I think there is a response emanating from--

Mr. Laughren: I think you are puzzling your own members.

Mr. Haggerty: Then there is the spread for those persons who have money in savings accounts. Normally, when you get high interest rates, those people save more. The spread between what you generate from a savings account or a gold account, whatever you want to call it, in the bank and what is out in the market today is enormous.

The Acting Chairman: I think what Mr. Haggerty is saying is that you cannot afford to be poor today. Maybe we can have the delegation go on with its presentation.

Mr. Dorey: I was just going to provide Mr. McCague with an answer.

Mr. Haggerty: Look in your crystal ball and see what you can come up with.

Mr. Silk: You are quite right about the Bank of Canada's objective. Our government, and more particularly our ministry, is not responsible for monetary policy. Our view is that the Bank of Canada, given its objective of trying to stabilize prices, given that has started, will continue to do what is appropriate, in its view, to try to restrain growth in the economy.

As economic forecasters and professionals in this business of trying to understand what will happen, we are saying that our view is that what the bank has done to date will moderate economic activity in the future. Consequently, seeing some evidence that inflation is not picking up, it will see that as evidence of moderate inflation and react by lowering interest rates in the second half of this year.

As forecasters, that is what we are trying to do. We are trying to say how we think policymakers, in this case federal policymakers, will react to economic circumstances as they unfold. We are providing you, the committee, and the people of Ontario, through this document, with our best guess, our professional assessment of what the future will bring for the Ontario economy in 1989. That is what we are attempting to do in this document and in this presentation.

Mr. Haggerty: I appreciate that, but you did mention wages. Everybody gets blamed because of the increase in wages. There have been well-documented reports that wages are not the reason for increased inflation, because wages have not kept abreast of the inflationary rate. So where is it?

Who is creating it?

The Acting Chairman: I think we will go on to Mr. Laughren's question right now.

Mr. Laughren: I hope Mr. Haggerty is finished, because I always like to hear him out to the full.

I wanted to ask the officials, who I know are almost as concerned as I am, maybe more concerned than I am, about house prices in Metropolitan Toronto and the effect of speculation, the speculative component of those price increases. There has been some work done by people like Royal LePage about the speculation component in house prices. What is the Treasury's assessment of the speculative component in the dramatic increase in house prices?

Mr. Silk: We do not have any analytical work done to answer that question.

The Acting Chairman: If I may interject, would the Ministry of Housing have done some work there? Would you know?

Mr. Laughren: That is not a fair question.

Mr. Dorey: We are not aware of it if they have.

The Acting Chairman: I am just curious.

Mr. Laughren: The Ministry of Revenue might.

Mr. Silk: To be quite frank, it is a fairly difficult area to get reasonable information on. Moreover, in the sense that our job in this particular exercise is trying to give you and the government an assessment of the outlook for 1989, we are looking at a very broad picture of what is going to happen to different sectors of the economy. In order to do that, we are trying to deal with the information that is available and fairly reliable.

Consequently, as I said with respect to another question you had about Metro Toronto versus other regions, partly, our job was not to try to do that. Our job was to look at housing as one component of the economy, and total housing as opposed to housing by region, etc.

To answer your question very simply, no, we have not done the analysis.

Mr. Laughren: To use a colloquialism, give me a break. Surely you people do not compile statistics for the sake of compiling statistics. That would feed every stereotype there is of the bureaucracy and Treasury, and I know you do not want to do that, so you must be compiling these numbers with a purpose and you must be looking at the price increases with some sense of policymaking when you do it. Why else do it?

I do not understand how you could put together a wonderful document like this and say that speculation in the market did not enter into your analysis. That completely befuddles me. I just ask the question.

The Acting Chairman: I think Mr. Ploeger has a response.

Mr. Ploeger: I suppose to measure speculation in Metro every time there is a transaction, if people buy a house for $1.5 million in Toronto,

they are speculating that the price will not go down.

Mr. Laughren: You are saying that for a person who has lived in a house for 20 years and is now 65 and decides to retire and move someplace else or into a condominium or an apartment, that is speculation because it is a transaction? Excuse me. I do not understand that kind of thinking at all; and I do not understand how you would not have speculation built into your analysis. That leaves me completely mystified.

Mr. Silk: I was not suggesting that you are not identifying an important factor that might explain some portion of the housing--

Mr. Laughren: But you do not know how much?

Mr. Silk: We do not know how much, principally because it is not really possible to obtain the statistics, not because we are not interested in the issue.

Mr. Laughren: If a house flips over in very short periods of time and you can see this happening, you mean that does not tell you something about speculation? If people who are doing it are not resident in the house, is that not speculation?

The Acting Chairman: If I can interject here, I understand Mr. Laughren's concern--

Mr. Laughren: I am glad you do.

The Acting Chairman: --but I am not sure the mere fact that a house changes hands quickly is speculation in all cases.

Mr. Laughren: I did not say in all cases.

The Acting Chairman: I think what the delegation is saying is that is a tough thing to get hold of. There is no doubt there is a lot of speculation, but how you put your finger on what is speculative and what is not, I think, is a very real concern and proper.

Mr. Laughren: How come people at Royal LePage are able to do that kind of analysis? I am really confused that with all the brain power at your disposal in Treasury, not to mention the Ministry of Revenue, if you call on people there and if they deem to help you, you would not have something there that tells you about speculation.

Otherwise--and I think this is an important part of it--how can your boss stand up in the House and say, "No, a speculation tax is not the answer." How does he know it is not the answer if you know you have not done the analysis on what is causing the house increases? I do not want to ask you a political question, but this is absurd.

The Acting Chairman: I stand to be corrected. If I can just say quite openly, Mr. Laughren, are you aware of a document, outside of the odd media report--not the odd, maybe a lot of media reports--that indicates in the Ontario economy or the Canadian economy a rationalization or provides statistics for speculation? I was a mortgage manager for 13 1/2 years and I have never seen or heard of such a document.

Mr. Laughren: Sometimes you do not want to see things that are there, either.

The Acting Chairman: I suggest it does not exist.

Mr. Laughren: These are the very people to whom I would look for that kind of information. That is what I am saying.

The Acting Chairman: You are saying perhaps they should try to find out.

Mr. Laughren: I find it—I do not want to use the word "unbelievable," but I found it incredible, and I do not want to embroil these gentlemen in a political debate, because I know they are here as servants of the people of Ontario and not to engage me in a political debate—and I am really taken aback by the fact that you have no analysis on the effect of speculation on house prices, particularly in Metropolitan Toronto. I have the numbers here for the price increases all across Ontario in the last three years, and in Metro my numbers are a little different from yours, because yours are more up to date since you have somewhat more capacity to process them. I have Toronto with a 119 per cent increase in the last three years. I think you have 122 per cent. What do you have?

1120

Mr. McCague: One hundred and twenty-two in a year.

Mr. Laughren: Oh, in a year. I am sorry. Okay. Almost 120 per cent in three years is what my numbers say. Right? That is from June 1985 to September 1988. That is the latest I could get, and my numbers had Toronto at almost 120 per cent. Actually one place is even higher than that and that is Cobourg and Port Hope at 129 per cent. I would guess, and only guess, that there would be much less speculation in Port Hope on land or on houses than there would be in Toronto, but I do not know that.

Mr. Ploeger: We have not done any in-depth research, as Mr. Silk told you already, but if you limit yourself to Toronto then I do not think speculation was ever a major factor in the years you are talking about. I think the problem of what is happening in Toronto is essentially a matter of demand vastly outstripping supply.

Mr. Laughren: Pardon?

Mr. Ploeger: Demand outstripping supply. Far more people want to own a home in Toronto than is physically possible under the circumstances of supply. I think that is by far the biggest factor. At the margin, there would be some speculation.

Mr. Laughren: But people can take advantage of that, can they not?

Mr. Morin-Strom: Supplementary. Do you have the data on that? Do you have any data on that whatsoever? Do you have data on how many homes in Toronto are owner-occupied as opposed to owned for speculation purposes?

Mr. Ploeger: It is quite clear from the statistics data there is a tremendous supply shortage in Toronto.

Mr. Morin-Strom: What percentage is owner-occupied?

Mr. Ploeger: You talk to any real estate agent, he will tell you that—

Mr. Morin-Strom: I will tell you that we have had testimony in this committee within the last few weeks from the Consumers' Association of Canada which shows that in terms of housing in the city of Toronto, most of which is condominium development, the majority of it is not owner-occupied. It is not being built for people to occupy. It is being built for people to buy on speculation. It is not a little percentage. That is testimony we have received. Where is your evidence that the vast majority of the ownership is going to people who are occupying those homes as opposed to speculation? Where is your evidence?

Mr. Silk: Mr. Laughren asked a very important and relevant question as to what the factors are that explain the rise in home prices and he suggested that speculation could be an important factor, if I understood him right. I would suggest that while it is quite true that I do not have a solid economic analysis to provide you, what we do know is that there are three or four factors that we think are useful in explaining the increase in home prices. While I am not necessarily suggesting to you that speculation has no role—because I frankly do not have the statistics to tell you that, and therefore I am quite open to the suggestion that speculation does play a certain role in home price increases—what we know is that the following factors are reasonably well documented. I do not have the specifics here for you, but I can obtain them.

Two factors are the increase in population in the greater Toronto area and the decline in interest rates between, let's say, 1984 and 1987. We had about a three percentage point decline in long-term mortgage rates. What happens is that when you get a decline in interest rates, obviously it becomes cheaper to own homes, and very quickly—no, actually, in this case it did not happen very quickly. The interest rates declined for quite some time and then people who owned homes discovered that people who wanted to buy homes could afford to pay more because their monthly carrying costs were being reduced by the decline in interest rates.

Essentially, what happened over a period of three years is that the decline in interest rates resulted in house prices rising by the appropriate amount to compensate for the fact that the carrying costs were reduced. That was the second important factor that resulted in an increase in home prices.

The third factor is that there was, of course, a tremendous amount of in-migration, not just the local population increase but a tremendous amount of in-migration into Ontario from other provinces, and particularly to the greater Toronto area. We have documented evidence on the numbers of people who came into Ontario and in particular the greater Toronto area. That was a third important factor explaining the increase in demand.

The fourth factor is, to a limited extent, the fact that the federal government introduced a capital gains exemption of $500,000, subsequently limited to $100,000, which meant that, essentially, small-time investors found residential investment perhaps more attractive than other forms of investment and moved funds into residential investment. I cannot tell you how much, but I do know that played some role in again increasing demand for housing.

Last, in October 1987, in the aftermath of the stock market crash, again people moved money out of the stock market and looked for safe, reliable, secure investment opportunities, and to some extent, some funds flowed into housing. Again there is anecdotal evidence about that. Royal LePage and maybe Midland Doherty will give you anecdotal evidence about the fact that some of their clients want to move money out of the stock market into residential

housing, but we do not have any solid, comprehensive data on that and that is why I am unable to give you what you might consider and what I would consider, as a professional, a satisfactory answer to your question, "Enumerate for me the five or six factors, one of which is speculation, in trying to explain the increase in home prices."

We just do not have the full extent of the data available to us. We have anecdotal evidence, as I am sure you do and as other people do in this business, but what I do not have is comprehensive data. I can at least identify for you, as I have just done, the five or six reasons why home prices have increased fairly dramatically in the last three or four years.

Mr. Laughren: What would have happened to all those factors if there had been a speculation tax?

Mr. Silk: I think I would have to defer that question to somebody in the office of the budget to try to give you an analysis of the impact of tax increases on expenditures and on prices. I am not sure I could answer that question.

Mr. Laughren: What about rent controls as a component?

Mr. Silk: I am not sure I understood.

Mr. Laughren: I wonder whether your analysis included the fact that because there are rent controls out there, that keeps the market somewhat cooler, does it not? People will stay in their apartments because it is cheaper, rather than if the rents are going through the roof. Does that not keep the housing market cooler than it would otherwise be?

The Acting Chairman: Could I be so bold, as chairman, as to ask Mr. Laughren to reintroduce that question? We do have a list, unless it was a supplementary to Mr. Morin-Strom, I say with the greatest respect.

Mr. Laughren: No problem.

The Acting Chairman: I do not want to interfere, as acting chairman, with the committee's doings and goings on, because there are some important questions that I am sure the members of the delegation want to deal with to the best of their ability, but I point out to the committee that we have roughly half an hour left. Next week our agenda is full, with the exception of 4:30 p.m. on Tuesday, which the committee may want to recommend we hold for Treasury officials to come back, the point being that as far as Mr. Decker has indicated to me, they will not be able to complete their submission to this committee, bearing in mind the number of important questions that were asked them today. Is it the wish of the committee to hold 4:30 on Tuesday for the Treasury officials to come back?

1130

Mr. Morin-Strom: Yes.

The Acting Chairman (Mr. Ferraro): Mr. Morin-Strom. Mr. McCague, are you in agreement to have them come back in at 4:30 on Tuesday?

Mr. McCague: Are they agreeable?

The Acting Chairman: I am sure some of them could come back; perhaps

not all of them. They are agreeable, I suspect. Mr. Silk is nodding.

Mr. Ploeger: Are you talking about from 4:30 p.m. until 6 p.m.?

The Acting Chairman: Yes. I think it would be 4:30 until 6.

Mr. Neumann: It will help you miss the rush hour.

Mr. Ploeger: Okay; that is agreeable.

The Acting Chairman: Mr. Ploeger has agreed to pay staff overtime for that hour and a half, I am told. Mr. McCague has a question. I am sorry; Mr. Morin-Strom. I apologize. Continue.

Mr. Morin-Strom: I think my colleague was pursuing some interesting points. On that last point, first of all, if we did not have the kind of rent control we have in Metropolitan Toronto, would that perhaps have an effect on housing prices? Have you ever looked at that?

Mr. Ploeger: I suppose Metro Toronto struggles also with the lack of available space, if you want to look at it that way. There is a shortage of space for meeting the tremendous demand forces coming from the influx of population. There will always be friction in the market.

Mr. Morin-Strom: Okay. Now we are getting back into the area of speculation in house prices. I am surprised when you say you never looked at the issue and do not have any information on it. It would seem to me that one of the simplest pieces of data you could put together would derive from looking at what is happening in the components of housing prices in Metro Toronto, particularly when one looks at the difference between the cost of property versus the cost of construction of a home versus the profit the developers or the builders are taking from the construction of the home.

Certainly, the escalation in prices in Metro Toronto is far in excess of the escalation in building costs in terms of the pure cost of the materials and the labour to construct the home. The replacement value of homes, in terms of the pure construction cost, in my mind cannot be going up anywhere near what the total house prices are going up, which means the escalation of house prices is a combination of tremendous escalations of property values and profit margins for the builders.

The Acting Chairman: Yes.

Mr. Morin-Strom: Certainly, we have seen that. There is not that much property that comes on the market, but the case that comes to my mind is the parcel of some 300 lots that was sold in Scarborough last year by the province of Ontario and set new record levels. They went for $160,000 a lot for just 40-foot frontages. Serviced lots, city of Scarborough, 40-foot frontages, and the province of Ontario sold them for $160,000 each.

That was to the developers, before they were going to take their profit margin after the sale of the house. Can you give me any assessment, or have you looked at that? Is that a consideration, as to those components of the cost of houses?

Mr. Dorey: We can tell you the change in the price of the house itself; the change in the price of land. Where the profit or the increase in the price of land in fact ends up is much more difficult to tell you. For the

January to November 1988 period, new house prices alone were 12.7 per cent above a year earlier, and land prices were 25.9 per cent higher than the year earlier.

Mr. Morin-Strom: That is the final selling price of the house as opposed to the construction cost of the house?

Mr. Dorey: This is the Statistics Canada new house price index.

Mr. Morin-Strom: Okay.

The Acting Chairman: By way of some information supplied by Mr. Decker too—it is anecdotal, I suspect—the Toronto Real Estate Board stated last week that in 1988, 30 to 40 per cent of sales were for speculation; that is, not owner-occupied.

Mr. Morin-Strom: So there are some data that perhaps could be obtained. There are some sources on that.

The Acting Chairman: There are, but in fairness, I would have to agree that would be anecdotal. In effect, they have a guesstimate, really.

Mr. Morin-Strom: I guess I would suggest to the Treasury people, and certainly the Revenue people, that they should be looking at that issue. Certainly, when the Consumers' Association of Canada was before us, it suggested that a speculation tax should be put on, not necessarily on family, owner-occupied homes, but in cases where a home is built or housing units are built—condominium units, for example—and the initial purchasers of those units do not actually occupy them. If there is a quick turnover, there should be a speculation tax put on that. If we have these kinds of figures as to what percentage is in that category—

The Acting Chairman: I am sure we can get into a debate, even the people around this table, as to whether or not there should be a speculation tax, but I think you have made the suggestion and I think they have heard you.

Mr. McCague: The whole area of speculation tax is one that the New Democratic Party has tried to champion for years. This government is reluctant to do it, but it is also going to add lot levies to the whole scenario, it would appear, which have the same kind of inflationary effect. I hope they do not do it.

Mr. Laughren: Which would you rather have?

Mr. McCague: If these people they talk about are labelled as speculators, there are lots of speculators within every political party in this province.

Mr. Laughren: Right on.

Mr. McCague: I do not think they quite understand that there are taxes payable, whether it is through a speculation tax or others, if you are in fact in the business.

I know that a lot of the subdivisions in my area will be sold 90 per cent to home owners and 10 per cent will be sold to speculators, but it is not the speculators who drive up the prices of those; it is the market. I think the NDP has quite often failed to recognize that and would lead one to believe

that it is in fact the speculator who gets in there who puts the price up.

The Acting Chairman: Is there a question, Mr. McCague?

Mr. McCague: No, just a point of view.

The Acting Chairman: Thank you for the editorial, sir.

Mr. Laughren: Just a belligerent point of view.

Mr. McCague: One like you would express yourself. Sorry, Mr. Chairman.

The Acting Chairman: Touché, Mr. McCague. Mr. Laughren?

Mr. Laughren: I was going to interrupt this gentleman.

Mr. Dorey: I have the information Mr. McCague asked for earlier. Between November 1987 and November 1988, new house prices in Toronto rose 23.2 per cent. The figures for other cities were 8.5 per cent for London, 8.5 per cent for Kitchener, 4.9 per cent for Windsor, 6 per cent for Ottawa-Hull, 7.2 per cent for Hamilton and 5.6 per cent for St. Catharines-Niagara.

Mr. McCague: Yes, fine. Still, there are lists that show places like Orangeville, Port Hope and Cobourg have gone up more than Toronto in percentage terms.

Mr. Dorey: Yes.

Mr. McCague: Your figures are for a short term. If you use a four-year percentage, I think there are some even higher than Toronto.

Mr. Dorey: I think prices in the fringe around Toronto have in fact—Statistics Canada, unfortunately, does not survey some of those centres, but we can try to collect more information on that if you wish.

The Acting Chairman: Canada Mortgage and Housing Corp. does. Mr. Laughren.

Mr. Laughren: Thank you, Mr. Chairman. This is a good committee. You get lots of chances to be able to debate.

Mr. Morin-Strom: Good chairman.

Mr. Laughren: Yes, good chairman.

The Acting Chairman: It is a very open government.

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Mr. Laughren: I started to ask the question about rent controls before—I know you might accuse me of having a superficial analysis; the chairman would not, but some of the civil servants might—about the effect of rent controls on house prices. Am I wrong in assuming that because there are rent controls, people will stay in a rent-controlled apartment rather than go out and buy a house faster, that they stay there longer, are more apt to stay there now—I do not know what the right language is—because of rent controls?

If you took rent controls off and rents started skyrocketing with a 50 per cent per rise—this happened back in the mid-1970s, which led to rent controls—would that not cause people to say: "Hey, I'm not going to live in this rabbit warren any more, paying these outrageous rents. I'll go out and buy a house." If you remove rent controls, would that not put increased pressure again on the housing market? Is there any analysis—

Mr. Ploeger: Are you proposing major increases in rent to solve the problem?

Mr. Laughren: No, you miss my point totally. I obviously have not said it well, and I had a feeling when I was saying it that I was not saying it well.

The Acting Chairman: It was kind of fuzzy.

Mr. Laughren: Yes, I acknowledge that and I apologize. What I am asking you is, is it true that because there are rent controls, people will stay in rent-controlled units because they are controlled and they are not going up at outrageous rates—well, some are not—and they will stay in those units, whereas if you took off rent controls people would say: "I'm not going to stay in this place any longer. I'll go out and buy a house." That would then put increased pressure on the housing market, even more than there is there now.

Mr. Silk: One of the things we may have not made clear is that when we talk about housing starts here in this chart, we are talking about both owner-occupied as well as rental. We are talking about single-family dwellings and multiple-unit dwellings. These are not just single family homes. These are all kinds of units, including rental units, including apartment buildings. It just happens to be jargon that we should have explained a bit more carefully.

Mr. Laughren: Yes. I understand that.

Mr. Silk: Effectively what we have here is the economics that affect demand for owner-occupied dwellings as well as the demand for apartment units or rental units, both being incorporated into our forecast of 86,000 housing units being built, some of them—in fact, the vast majority of them—being owner-occupied dwellings, but a reasonable number of them potentially being rental units. That is included in the 86,000.

So your point is well made. Obviously, if you keep the price of rents, in this case rental units, low, people will stay there and will not move out if the alternative is fairly expensive; that is quite right. I would not dispute that at all.

What we are saying here is that we are looking at both markets, the owner-occupied market as well as the potential rental market, at the factors that influence the demand for both of those, coming up with a total figure of 86,000 for all types of units.

Mr. Laughren: Thank you for that explanation. Has the Treasury done analysis of to what extent rent controls affect starts? We hear from the industry all the time, and from the Reaganites who are even in Ontario, that if we let the market have its way there would be more rental units built out there and that this is what is causing the problem. That is what they are saying.

I believe the clerk of this committee was with us when we dealt with the rent control bill back in 1986 and there was one man who came before the committee and said we were all a bunch of Marxists because—do not blanch everybody; take it easy; I am not accusing you of this—we were engaging in what is called market failure strategy, where you deliberately set out to screw up the market which then requires government intervention to solve the problem, and therefore it was a Marxist plot to destroy the free enterprise system. You know I do not subscribe to that theory and I know you do not or you would not be in the civil service.

Anyway, I am wondering whether you have done any analysis on to what extent, if any, rent controls affect housing starts.

The Acting Chairman (Mr. Ferraro): Mr. Ploeger, would you care to attempt to answer that?

Mr. Ploeger: I think we are getting pretty heavily into questions that probably could be more effectively addressed by officials of the Ministry of Housing. We are moving a long distance from discussing the economic outlook or the economic question.

Mr. Laughren: Oh, come on, that is an economic question, surely; talking about housing starts.

The Acting Chairman: I would share some of your concern, Mr. Ploeger, and I respect your answer, by saying that perhaps we should be addressing it more appropriately to the Ministry of Housing.

Mr. Laughren: Okay. Am I right that you have done no analysis on the impact of rent controls on housing starts or of speculation on house prices?

Mr. Dorey: That analysis is done primarily by the Ministry of Housing. We certainly talk to the Ministry of Housing. They tell us that of the 23,000 rental starts they anticipate in 1989, 16,000 will be social housing built with government assistance. That suggests there is something like 7,000 rental starts expected to be produced without government assistance.

Mr. Laughren: I was really talking about rent controls rather than social housing. Of that 7,000, some of those will be subjected to rent controls, right?

Mr. Dorey: I do not know.

The Acting Chairman: The answer is quite clear that the Ministry of Treasury and Economics has not done a study that will reflect the ramifications of eliminating rent controls on housing starts. Okay?

Mr. Laughren: Therefore, it is just full speed ahead; rent controls all the way. Those are the assumptions. When you are doing those charts, there is an assumption that the status quo remains.

Mr. Dorey: Yes.

Mr. Laughren: And that includes no speculation tax.

The Acting Chairman: Ms. Poole has a question now.

Ms. Poole: If I might make a suggestion, I see we have whipped

through six pages of an approximately 50-page report--

The Acting Chairman: "Whipped" is the word.

Ms. Poole: Yes--and we seem to have gotten sidetracked with questions. While they have been very interesting, they are not helping us get through the presentation. Might I suggest that perhaps we delay questions to the end of the presentation, other than for questions of clarification, since they are coming back on Tuesday?

The Acting Chairman: What are the wishes of the committee? I think it is a good suggestion.

Mr. Laughren: That is really mean.

Ms. Poole: I know. I am a very mean person, but sometimes practical.

The Acting Chairman: Any other comments from members of the committee?

Mr. Morin-Strom: We might need some brief time for agenda. I see we are getting close to noon. As I understand it, committees have been requested to put forward their proposals in terms of time during the break; how many weeks we want and when we want them. It seems to me it would be nice to have a committee decision on that today so we could get our oar in with the House leaders. Otherwise, we will be talking about the budget one week before the budget is presented.

The Acting Chairman: Would that be appropriate for a subcommittee to deal with or are you suggesting the committee as a whole?

Mr. Morin-Strom: I am suggesting it would be nice to have the committee make a decision on that now so that we can go right from here to the House leaders as soon as possible, rather than put it off for another week. I do not think it will take long.

Mr. McCague: It sounds reasonable.

The Acting Chairman: Any other comment? Do I take it that perhaps we should dismiss the delegation at this point?

Mr. Morin-Strom: I think that is possible, yes, and we can go up for the votes at 12 noon.

The Acting Chairman: Is that consensus I am hearing? Okay. Mr. Ploeger and your officials, thank you very much, on behalf of the committee, for attending. We look forward to seeing your pleasant faces with your flak jackets on next Tuesday at 4:30.

1150

ORGANIZATION

The Acting Chairman: The suggestion from Mr. Morin-Strom is that this committee indicate to some degree where we want to go vis-à-vis the agenda.

Mr. Decker, can you give me a copy of the proposed agenda to date? In

that I am not chairman of the committee, perhaps Mr. Decker can bring the committee up to par as to what the subcommittee has done to date.

Clerk of the Committee: A couple of weeks ago the subcommittee met and adopted a schedule from that point to the end of January, which is the anticipated recess of the House. The subcommittee further agreed to request permission from the House leaders to meet for three weeks during the adjournment. That request has gone to the House leaders, although the dates of those three weeks were not specified.

Mr. Morin-Strom: There are two points I would like to make before we adjourn, one having to do with the Ministry of Treasury and Economics estimates, which have been apparently given to the committee and which I do not believe the subcommittee discussed. It certainly was not discussed when I was there representing our party. I understood that estimates are a legislative mandate of committees that have to be accomplished before the year end and perhaps we have a mandate to schedule estimates.

The Acting Chairman: I would share that understanding.

Mr. McCague: We are in that same problem with a lot of estimates. While Mr. Morin-Strom is right, I think the government House leader can also bring in a motion to say that the estimates are deemed to have been dealt with. I think that raises a slightly different question: whether we want to give priority in the committee to the estimates of the ministry or go on with the prebudget consultations. I understand--I am sure I am correct in my recollection--there have been motions come in to deem them all to have been dealt with.

The Acting Chairman: The clerk tells me you are absolutely correct. The clerk also tells me that the norm has been that the estimates of a ministry are usually dealt with when the House is sitting as opposed to the recess period. But you are correct.

Mr. Morin-Strom: Yes, and I would certainly not suggest the Treasury estimates should be done after the House finishes sitting; I am talking about before. On this issue, I am talking about what we should be doing before we adjourn and I believe that we have an obligation to schedule them, even if it means we schedule them the first week or second week in February. If it turns out we do not sit that long, then they do not happen, but I believe that the committees that have estimates before them are scheduling estimates and are doing them. They may have too many in front of them to do them all and they may end up getting cut off and this motion may go forward, but I believe we have an obligation to have them on our schedule. If we do not even have them on our schedule, then I believe perhaps we are not living up to our mandate.

The Acting Chairman: I think you make a very valid point. I would point out to the committee that we are scheduled essentially up to the end of January and, if the committee so decided, we certainly could schedule the first week or two weeks of February, hypothetically, for Treasury estimates, if there is no objection.

Mr. Morin-Strom: If the case occurs that we are still here, then they are scheduled.

The Acting Chairman: And if they are not, then we will deal with that.

Mr. Haggerty: I think you should have it scheduled here, so that at least you have ministry staff aware that they should be here that day or can schedule their time, because no doubt about it, they are preparing the Treasury estimates for the coming year and they are pretty busy. I think we should give them ample time. I do not know; are three days enough to go through the Treasury estimates?

The Acting Chairman: We have 10 hours given to us for Treasury estimates. Can I assume that the committee's wish is that we schedule the 10 hours commencing with the first week in February?

Mr. Haggerty: Can it not be sooner?

The Acting Chairman: No, we are booked, unfortunately, unless the committee wants to cancel some of the delegations.

Mr. Haggerty: What are we booked on?

The Acting Chairman: We are booked on prebudget submissions.

Mr. Haggerty: That is the public coming in?

The Acting Chairman: Yes. Prebudget submissions are booked essentially for the rest of the month, with the exception of 4:30 p.m. Tuesday, which we just scheduled with Treasury.

Okay. That is the consensus. Thank you. Any other points?

Mr. Morin-Strom: The second point was, I understand from the clerk we have asked for three weeks during the recess to deal with the prebudget hearings. I suggest we should make a strong pitch that those three weeks be as soon as possible after the recess, in February if at all possible.

If we just go in and ask for any three weeks, we could end up getting them in March. The Treasurer (Mr. R. F. Nixon) is likely to be coming in with his budget very quickly after we get back in early April, and effectively we will have no say at all unless we have our public hearings and get a report during the recess as quickly as possible. If possible, the first three weeks is what we should be after; certainly three of the first four, something like that.

The Acting Chairman: Just as a matter of information, I point out to the committee that the chairman will not be available during February. I am sure the vice-chairman and others will be available to take his place. I think that is an important suggestion that you make. The consensus is, I hope, that if we are indeed going to go for three weeks, we get them as quickly as possible after the recess. Mr. Decker will indicate that to the chairman and the vice-chairman in the meeting with the House leaders.

Mr. Haggerty: I think we should put on the record to show where the chairman is going to be. I know where he is going to be for that month; I believe he is a guest of the United States government. Am I correct in that?

The Acting Chairman: I understand he is going to be on a tour of the United States.

Mr. Haggerty: That is right; on the free trade agreement.

The Acting Chairman: Yes, and other matters.

The committee adjourned at 11:57 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION

THURSDAY, JANUARY 19, 1989

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
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Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Campbell, Sterling (Sudbury L) for Mr. Cleary
O'Neill, Yvonne (Ottawa-Rideau L) for Mr. Kozyra

Clerk: Decker, Todd

Witnesses:

From the Income Maintenance for the Handicapped Co-ordinating Group:
Watts, Christopher, Chairperson; Canadian National Institute for the Blind
Arsenault, Francine, President, Persons United for Self-Help in Ontario
Southern, John, Blind Organization of Ontario with Self-Help Tactics
Beatty, Harry, Legal Counsel, Advocacy Resource Centre for the Handicapped

Individual Presentation:
Vezina, Greg

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 19, 1989

The committee met at 10:01 a.m. in room 151.

PREBUDGET CONSULTATION

Mr. Chairman: Perhaps we can get started. I see a quorum.

The committee is extremely fortunate this morning in that we are going to be able to sit. There is nothing that can be done upstairs to avoid that, because of course we are sitting prior to routine proceedings. I have always said how happy I am that we can sit on Thursday mornings.

We have with us this morning the Income Maintenance for the Handicapped Co-ordinating Group, some of whom have appeared before us in previous years under a different guise; if I recall correctly, the Budget Coalition from the Disabled Community last year.

Harry Beatty, Doug Owen, John Southern and Francine Arsenault are with us. If you would take a seat before the committee, perhaps you can lead us through your presentation, which committee members have in front of them.

While you are taking your seats, I might just comment that the committee members are probably aware that last night an announcement was made on two major brewing companies apparently merging. The newspapers are talking about a major oil company being bought up by another major oil company. I just raise the question of the public interest and whether we should be, at some time, looking at whether or not the public interest is being served by the extent to which corporations are concentrating their power more and more and whether or not there is something that can be done about it at this level.

I have in front of me--and perhaps we could have this distributed--an article by James Gillies, who at one time held a federal cabinet post, I believe. It says "Canadian Billionaires: Are they Making Canada Stronger?" His conclusion is that they are not, and he points out that we have more billionaires per capita than any other country. There are questions that maybe we should be pondering on the whole issue of wealth distribution.

In any event, somewhat on the same tone, I suppose, but perhaps with a different emphasis, you have some comments you wish to make to us.

INCOME MAINTENANCE FOR THE HANDICAPPED CO-ORDINATING GROUP

Mr. Watts: Good morning. My name is Christopher Watts. I am replacing Doug Owen, whose name appears on the cover of our brief to the committee today. First of all, I would like to thank everyone, Mr. Cooke and the other members of the committee, for the opportunity to appear here today.

We are here as the Income Maintenance for the Handicapped Co-ordinating Group. We are a coalition of 13 organizations, we like to say, of and for disabled people in Ontario. If I can quickly run through our organization and consumer group membership, we have On Our Own, a consumer group of ex-psychiatric patients; the Blind Organization of Ontario with Self-Help Tactics, which is a self-help group for blind people; the Multiple Sclerosis Society of Canada; the Canadian Mental Health Association--Ontario division; the Advocacy Resource Centre for the Handicapped; the Kidney Foundation of Canada--Ontario division; the Ontario March of Dimes; the Ontario Federation

for the Cerebral Palsied; the Ontario Association for Community Living; Views for the Visually Handicapped, which is an organization for parents of blind children; the Canadian National Institute for the Blind—Ontario Division; the Council of Councils, which is a consumer group based at Riverdale Hospital trying to improve personal needs allowance rates, and also Persons United for Self-Help in Ontario.

We also have here today, sitting behind us here on the left, Cathy McPherson, who is our co-ordinator to promote the Transitions report, which is a position funded by the Laidlaw Foundation.

I would like also to mention that I am here to replace Doug Owen, whose Wheel-Trans ride cancelled today. I thought I would mention that.

Mr. Chairman: How much warning did he have of that?

Ms. Arsenault: Last night.

Mr. Chairman: How long ago was the appointment made?

Ms. Arsenault: Two weeks.

Mr. Watts: Four or five days, I think.

Mr. Southern: Last Friday. He was actually given the ride and he thought he was going to be able to come today. It was just dropped yesterday.

Mr. Chairman: Does that happen very often?

Mr. Southern: Wheel-Trans is going through a real bad time at the moment because of the takeover of the system fully by the Toronto Transit Commission. I do not know why it is causing so much of a problem.

Mr. Chairman: We are diverting ourselves.

Mr. Watts: Thank you. We are here today to promote and strongly argue as well as we can to promote the recommendations of the Social Assistance Review Committee, chaired under George Thomson. The report is entitled Transitions.

We are concerned particularly, of course, with the stage 1 recommendations, the main ones of which appear in this brief today. We are concerned for a number of reasons. We are concerned because, despite the government's efforts over the past many years to put more money into income maintenance and improvements to various programs for the disabled generally, there is still unfortunately—and the findings of the report indicate this as well—a sense of marginalization and lack of participation by disabled people in the province, particularly from the standpoint of being able to smoothly make the transition to full employment.

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We certainly feel and the constituents that we represent certainly feel that the only way to be fully participating members of society is essentially to be taxpayers, not only from a financial standpoint but also from the standpoint of being alleviated, I would say, from the stigma associated with being on social assistance.

We feel the report is an accurate reflection of many of the difficulties

that disabled people in Ontario experience. We believe its recommendations are sound in terms of making that transition smooth and effective. There are a considerable number of demands throughout the province now with respect to people who feel they want to make the transition to work but feel there are a number of disincentives to work as well.

With respect to some of the programs that are coming on stream now, for example, the assistive devices program, there are some delays, primarily due to bringing in new policies and administrative procedures to support an expansion of the ADP. However, there are still some delays which result, unfortunately, in people waiting longer for their equipment assessments. In some cases the person may have a job offered to them by a private employer and may not be able to access that job in a timely manner because of the delays experienced at that particular level.

There are other disincentives we would like to deal with today, which are mentioned in our brief. We believe it is even more necessary, as a result of the existing disincentives—which we believe are unintended consequences: they were never built in intentionally, of course, to erode people's ability to work—for the government to adopt the stage 1 recommendations, and further to that, to look seriously at the opportunity planning process that would enable people to make that transition with some meaningful support.

What I would like to do now is turn the presentation over to John Southern, who will deal with the main points covered in our submission today.

Mr. Southern: I guess Kit gave a pretty good outline there of what we are going to deal with.

Just for anyone who is not aware of the fact, I was a member of the Social Assistance Review Committee that reviewed social assistance in our province. I have been a member of the Income Maintenance group for eight or nine years, so I was certainly more than familiar with these kinds of issues.

I learned a lot from being on the committee and I did not realize the depth of poverty that disabled people were actually living in. I think you get to know the perspective of Metropolitan Toronto or something, but if you attend some of the hearings around the country, particularly up north as in Timmins and Sault Ste. Marie, the levels of poverty that disabled people experience where the services are not so good—and they are not that great in Toronto—were just appalling and a real shock to the system.

I do not know how to make people listen to us, to really take in the emergency of how poor our social assistance system is in our province. I do not think I would have been involved in working on the report if I did not think the government was serious about making some real changes. At the time the Honourable Mr. Sweeney appointed me, I believed that was the case. I am starting to worry a little bit whether it is the case nowadays.

The report is called Transitions. I think too many disabled people have been left to stagnate and there has been no transition anywhere. I do not know how many disabled people are on family benefits at the moment, but I would guess around 90,000. Then there are more disabled people on general welfare who have not made the great leap forward to the guaranteed annual income system for the disabled, such as it is.

I think that is a terrible resource that is not being used. The kinds of lives disabled people live on social assistance are unbelievable. Even if they

have a subsidized apartment, many disabled people do not have the skills to look after themselves or utilize their budget in the best way, as they would if they could cook for themselves. I know a lot of blind people are starving towards the end of the month because they just cannot afford to go out and eat in a restaurant and nobody is taking care of them. That was quite a surprise to me, especially about blind people. I did not think they were actually left to starve.

Certainly from my own perspective, I want to see disabled people make that transition into society, be full members of society and eventually, with any luck, leave the social assistance system.

Kit touched on work incentives. Part-time work for disabled people is a good option for many. Because of their disabilities, some of them cannot hold a full-time job but do want to be part of society and participate to their fullest ability. Currently, they can only earn up to $125 a month. If they earn over $250, they lose their benefits altogether. So there is hardly any incentive to work there.

The so-called Win program, the work incentive program, was not a bad program when it was introduced, but there have been basically no changes to it since 1981. Single persons can earn up to $965 before they lose the benefits. Some people, if they take a full-time job—and often for disabled people, unfortunately, they are just entry level jobs and do not pay too much—can spend as much as $200 or $300 on drugs.

So there need to be some efforts made there to improve the Win program. I know some aspects of work incentive program are not cost-shareable with the federal government. Maybe the government should lobby harder to try to get the feds to reassess that.

I know for myself, especially as a married man with a family, the Win program certainly was of no benefit. A person on the Win program with a wife and two kids can earn about $1,150 a month before he loses all benefits. I was offered a job at $16,000. I thought I might benefit from it. Once I had been working a few months, I regretted that I had taken the job. It made me feel good to be working again, of course, but on the other hand, there were all kinds of problems. The furnace broke down and we had to get a loan from Consumers Gas. We were paying 18 per cent to pay back that loan, to replace the heat exchanger in the furnace.

It was costing a hell of a lot because we had lost the drug card. Basically, I was working 40 hours a week and I was maybe better off by $50 a month cash-wise after we had paid everything out. I think it would have been of more benefit to stay at home and help my wife look after the kids than just earn that little bit of extra cash.

You just cannot seem to break loose of the system. Unfortunately for disabled people, the jobs they get are often short-term or contract jobs or whatever. I can use myself, unfortunately, as an example. I just reapplied for family benefits again last week. It does not make me happy to do that, but this time I have no choice but to do that. You want the best for your kids. You would like to plan for a future, but you cannot.

I think if there were more incentives, especially for women, work incentives for part-time employment, it would greatly improve the lives of disabled people.

I did touch on the drug cards, but that is a serious problem. I know people who have entry level jobs. They work for a few months and they just cannot survive in the system. I know there has been some movement by some people with certain diseases to get some assistance, but I think benefits such as the drug card have to be made more available to the working poor and to disabled people.

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We were just debating this morning, so it hit home how much people do get on family benefits. A single person gets basically $561 a month. Somebody was telling me that an MPP gets somewhere around $900 to assist him or her pay for the rent for their second home while they are working in Toronto.

Obviously, you need that kind of money, so you realize if you are getting that kind of a grant—disabled people still have to live in Toronto too, you know. I met some disabled people who are using the whole of their cheque to pay rent. They are relying on their families, food banks and whatever for food.

In the news lately there has been a lot of talk about the health costs in our province, the shortage of hospital beds and whatever. I think, overall, if you do not do something about social assistance—it has been proven that people on welfare and social assistance end up ill and stressed-out being on social assistance. They cannot afford good nutrients, good food and good nutrition for their children and themselves. I think that the cost to society in the long run, if you do not spend some money now to change the system and society, is going to be immeasurable.

It has been said that it would cost $600 million to fully implement stage 1. I say, if it does, I know it is a lot of money but I think it should be spent. It is less than one per cent of Ontario's total budget. I think the cost benefits from spending money now to allow disabled people to move into the workforce and into society would be hard to measure. Of course, we did not have the facilities or the money to cost it out properly in the Social Assistance Review Committee, but maybe the government should take a good look at it. I think it would save the government an awful lot of money. I am not just talking about disabled people. I am thinking of other groups that are left to live in poverty. I think society would benefit by raising those people up out of the depths of poverty.

I guess I will leave a little bit of time for Francine to say something. I will pass it to Francine.

Ms. Arsenault: I think my job is to put a human face on some of the discussions that we have had. I am president of an organization called Persons United for Self-Help in Ontario, or PUSH Ontario. Because we are consumers, because we are all disabled persons working in this organization, we get the calls from people who would not go to their social worker or to the doctors or to lawyers. They call on us because they know that we have been in similar circumstances and perhaps can guide them to areas where they can get help, without judging them, without making any kind of statement about the situation they are in.

Some of the people who call us are in dire distress. We have prepared ourselves as much as we can with knowledge of what is available in the community and we try to help these people get to the source of help that they need. I think that you should hear about some of these people.

One of the ladies called us from Ottawa. She has been looking for a number of years for a house that is all on one floor. She has a disabled child who has cerebral palsy, who is in a wheelchair. When she first moved to this house, which is a town house on two levels, the child was small and she could carry him upstairs and downstairs. Now the child is 11 years old and she has developed back problems. She cannot carry the child. Because of the housing shortage, because of the fact that she is on welfare, because of the fact that she has to have a specialized apartment that she cannot get at this time, she may have to let her child go to a chronic care facility.

The stress that will be on that mother and child at separation is a terrible thing. She wonders where she can get help and what she can do about it. We have tried to explain to her which people she can contact who, we hope, will be able to help her. But the fact that comes out of it is that if the services were co-ordinating—if she were able to keep the child with her—she could help round out that child. She can have the child educated. The child is able to learn. With the extra help of being with his family, we believe that he could become a contributing part of society, that he would not become a burden on society.

We have, hopefully, been able to lead her in an area where she will be able to get the help she wants to do that. We believe that if the first stage of the Social Assistance Review Committee report is implemented, that will be easier for her.

We have another lady who called. She has been on a disability pension for a number of years. She has been disabled since childhood. She finally had to have her leg amputated. After the amputation she was spending three days in hospital, two days at home with a helper and two days on her own. Because she was going back and forth between the ministries, the Ministry of Health covering her when she was in hospital and the Ministry of Community and Social Services covering her when she was at home, each thought the other had supplied a wheelchair for her. She did not have a wheelchair.

When she left the hospital it kept the wheelchair, and when she was at home Community and Social Services was not providing it, because they thought the Ministry of Health was. She ended up having to get neighbours and friends carry her back and forth to her apartment for a number of weeks. Because she was tired and in such a condition that she did not know whom to call or where to go for help, she was not telling the people working with her and for her that this was happening. Only her family knew about it. They contacted us and said, "Where can we go from here?"

We got her the help she needed, but our suggestion in discussions here about the SARC report is that the ministries work more closely together, that they do not have these grey areas that people fall into. For disabled persons to get along in society it is necessary for all the areas that have an impact on their lives to be co-ordinated. If you provide transportation for somebody but you do not provide the rehabilitation services that they need, they do not have any place to go. If you do not provide the opportunity for jobs, they do not need that transportation to get to a job. All of these things have to work together. It is an overall view that you have to look at.

Kit mentioned that Doug Owen was supposed to come today and that Wheel-Trans cancelled. The thing that was not mentioned was that the only alternative he has is to hire a private van. It is about $20 a trip to get here. In this case we would have covered the cost, but he was not able to arrange it in time anyway.

The average disabled person does not have the money to afford it. He would miss appointments. If it is to see a specialist, it may be three months again before he can set up another appointment. That happens often, not only in Toronto. Toronto is not remarkable for that by a long shot. That particularly happens in smaller areas. I come from a rural area. The transportation there is nonexistent for disabled persons.

We were talking before about supplementary assistance for rent, drug costs and travel allowances. Some municipalities do not provide that supplementary cost at all. Particularly in rural areas where townships and counties look after it, the budget is sometimes nonexistent for these extra costs. In my area particularly, the majority of the people involved do not know about the services, because of lack of education as to what is available, and have no means to get to it to use it. The budget is not advertised at all if there is one. In many cases there just is not a budget set aside for the extra costs of disabled persons in a rural community.

We have mentioned in our brief that we would like the comfort allowance increased for people who are in institutions. People might say, "The fact that they are getting anything extra at all is a good thing." It is a good thing. But if you consider that a disabled person in an institution has more needs than the average person in an institution, you will find the person needs—for instance, I am just thinking of one lady who needs lotion for her legs because she has a bad circulatory problem. It is not a medical thing to the degree that she needs medical equipment, but to keep her legs in good condition she needs lotion; that is costly and she does not have the money for it. It is a minor thing, but to her it is major.

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I would like to tell you a success story because we are always talking about needs. In Persons United for Self-Help where we deal with disabled persons helping themselves, we have seen a girl who cannot communicate, who has cerebral palsy, severely, and looks very severely disabled, so that peoples' attitude towards her is that she cannot contribute. She began to come to some of our meetings a number of years ago and all I saw was her eyes. Her eyes were saying, "I need to talk to you. I want to do something with my life."

Over the years she has become a member of our board. She regularly attends. She uses a symbol board to tell us what she wants. She has been able, through a community action fund grant that we got for computers—we have put a computer in her area—to learn to use a computer. She is now contributing to a newspaper in her area about the needs of the disabled in her area. She has become a member of a parallel transit system in her area, has a feeling that suddenly she is worth something and that she is contributing.

I think that that kind of human resource has been wasted in the past and if you can implement this Social Assistance Review Committee report—the first stage of it, anyway—you are going to find that there are many more people with potential, who have been ignored in the past, who can contribute to society and I think the Ontario government will benefit by it.

Mr. Chairman: Thank you.

Mr. Southern: I think, just before we open ourselves up for questions, I would just like to add that—from a disabled person's point of view—people ask me sometimes, "What is it like to be blind?" or whatever. And I tell them that most of my life I have been blind and that I am certainly

used to the situation. Blindness can be an inconvenience sometimes, especially if it is snowing or something, you know. It might be a little difficult to get about, but you learn to live with that inconvenience.

But I think one of the worst things that I would have to say about being disabled is society's attitude to being disabled and the way you are treated. Unfortunately, unless they have a good insurance plan, I would say to most people, "Be careful that you do not become disabled, because you will be condemned to a life of poverty." We have found from our nearest estimate that there are around 690,000 disabled people living in the community and 500,000 or more are living under $10,000 a year in this province.

I just think that it is a crime. It should not happen in this day, especially when you have an employment rate of four per cent or something. I just cannot believe that people are living on that kind of money and I urge you with this presentation to really interest the government in doing something about this problem.

Mr. Chairman: Thank you very much. Mr. Haggerty has a question.

Mr. Haggerty: I have some questions I want to direct to the panel concerning the Social Assistance Review Committee's suggestions on the level of poverty. What has it said in total numbers? Is it $13,000, $14,000 or $15,000? What is the level?

Mr. Southern: About $13,000 is about it.

Mr. Haggerty: Is that in Ontario or across Canada?

Mr. Southern: In Ontario.

Mr. Haggerty: In Ontario. So you are looking at $13,000 or $14,000.

Mr. Southern: Yes. And that is one of the terms we came up with. We think it needs to be looked at, not just by setting a cash level, but with a view to how costs change and what people need. That is why we started to talk about (inaudible) as opposed to poverty lines.

Mr. Haggerty: Is that a single person, though, whom you are talking about?

Mr. Southern: Yes.

Mr. Haggerty: Okay. The next question is about the suggested report, that said that additional funding in this particular area would cost, I think, an estimated $380 to $415 million. You have met with the minister and he said it would cost $600 million. Is that $600 million provincially funded or is Canada assistance included in that?

Mr. Watts: That is cost-sharing.

Mr. Haggerty: So we are looking at—what then?—$300 million?

Mr. Watts: Roughly, although Mr. Sweeney mentioned to us in December 1988 that in fact the province tends to pay roughly a 60-40 division rather than a 50-50, so although under the Vocational Rehabilitation of Disabled Persons Act and the Canada assistance plan the equation is 50-50, the province tends to kick in a little bit more, but definitely that $600-million figure

which Mr. Sweeney estimates it would cost to implement stage 1 fully—and I would like to add, he suggested that it would be implemented in its totality, rather than implemented in pieces, or increments—would be cost shared under—

Mr. Chairman: That is each stage once—

Mr. Watts: Yes.

Mr. Beatty: If I could add a point related to cost-sharing, in his presentation John mentioned that the work incentive program introduced in 1979 had not been improved in all these years. It was a good concept when first introduced by the province, but the amount of the income supplementation or the level at which the person becomes eligible has not gone up by one penny in close to a decade.

We believe one reason for that is that income supplementation of a person who is working is not cost-shareable. The province does that program with 100 per cent of the dollars. In so far as stage 1 involves things like that, particularly income supplementation for working people, it may be with 100 per cent provincial dollars. That is why it is more than 50-50 in terms of the provincial contribution.

Mr. Haggerty: That was my next question. In the tax back, if a person is working, then if you are earning $500 a month, you are suggesting that he keeps at least $400 of that. At what level does that bring you then to the poverty level? Would it not be well below?

Mr. Southern: At this time it would certainly be well below.

Mr. Haggerty: Have you got any numbers there?

Mr. Southern: That figure you were talking about would be for a family unit that would keep $400. With the current benefits, I guess it would only take a family on family benefits to just over $14,000. But for a family of four, I have heard various levels, but I think about $22,000 is the recognized Statistics Canada poverty level for a family of four.

Mr. Haggerty: And a single person would be considerably below that level?

Mr. Southern: Oh, yes.

Mr. Haggerty: You would not have the numbers, would you?

Mr. Southern: No.

Mr. Watts: I am not sure about the work incentive program figures, but the new basic rate, after the 5.1 per cent increase announced last month, is now $561 a month as the allowance rate.

Mr. Haggerty: The allowance rate?

Mr. Watts: That is for a single person.

Mr. Haggerty: But that—

Mr. Southern: Talking about Win or a single person—oh, no, we are talking about working centres, I guess, among people who can earn something

like part-time earnings.

Mr. Haggerty: There definitely will be a shortfall, even under that program. Have you any suggestions how to pick up that additional revenue if you were to go with the full suggestions under the report? How would you generate additional revenue? We see revenue lost in the area of the sin taxes, you might say, considerably; there is a shortfall this year and I guess it is continuing now. Do you have any other areas that you would suggest? If you want this additional revenue, how does the government go about getting it?

Mr. Beatty: I guess the underlying idea in our submission is that there will be some consequential savings. I guess the obvious example is that if you increase the incentives to work either part-time or full-time, then people are taking the step towards leaving the social assistance case load. Disabled people are presently the largest group, slightly more than sole-support parents, on the provincial case load. If you do the true cost-benefit analysis, you are looking, perhaps not in the first year but over a longer term, at that kind of saving.

I will give you a concrete example involving a member of our own staff at the organization where I work, someone who came to us at 30, a disabled person without having had a chance to work before, so she was on family benefits and in Ontario housing. As a visually handicapped person who needed an adapted computer, the pricetag for the adapted computer plus training was something like $13,000 to $14,000 in year one. Two or three years later, she is still working, and with the skills she acquired I do not thing she is going to be back on that system again. That is what we mean in terms of cost benefit.

There are a lot of costs associated with disability, in particular, if you look at the cost of institutionalization, whereas if this is implemented we will start to see savings in this area. I guess you are right that these demands are competing with other demands on the budget. You may have to tax or cut elsewhere to fund it. But we think that in the long term, the package that envisages people being integrated in the community is not going to cost more.

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Mr. Southern: I do not know what the reluctance is of governments to really make some efforts to deinstitutionalize people, and I do not just mean throwing them out on the street either; I mean providing good community supports where people will want to live in the community. The cost benefits, I think, would be just phenomenal. Since 1980 or something like that, we have been lobbying for that kind of change.

Mr. Watts: The other thing too, and it is a thread that has run through this discussion as well, is the alleviation of health costs more in the long term. I think that is a difficult thing to cost out. The analogy I can think of is that we can almost compare it to crime statistics, in the sense of how many crimes go unreported. Perhaps we do not know how many crimes go unreported. If we did, then I guess they would be reported. There is some definite suggestion by the Thomson committee that over the long term, perhaps not in the short term--this is where the government in our view has to really get a grip on these extra expenditures immediately.

Mr. Chairman: I am sorry. Get a grip on what?

Mr. Watts: Get a grip on making the initial expenditures more for a long-term benefit; that is, the extra costs, in particular incurred by

children and these families, with respect to health care costs. Also, there is what Mr. Southern mentioned, the shift that I think two ministries in particular, the Ministry of Community and Social Services and the Ministry of Health, will have to get a grip on: a shift away from the institutional tendencies, shall we say, that we have had over the past number of years and more into community health organizations and grass-roots care. It is fairly compellingly argued that this will result in substantial savings over the long term.

Mr. Haggerty: Just one more question: Have you consulted with any MPs in the area at all? Have you made representation to the federal government in this particular area?

Mr. Watts: No, not at this point.

Mr. Haggerty: There has been, you might say, a considerable cutback on established programs financing. It means the province has to pick up an extra load in this area. If they do not pick it up, then the municipalities have to pick it up. As we move people out of the institutionalized centres, it comes back to local communities and it is getting to be quite a struggle for local municipalities. I will probably be getting into this on Saturday with the Niagara regional municipality, discussing some of the problems with this. I share your concerns here. I see the need there for some additional funding.

Mr. Watts: To add to what you are saying, we are aware also that there is some potential for endangering the relationship we have now with the federal government, under the Canada assistance plan in particular. We are concerned about that relationship. Naturally, the province would have to be concerned if there were an erosion of that 50-50 funding, particularly as there have been some significant and we feel welcome changes to the provincial-municipal relationship with respect to the change from 50-50 funding to 80-20 in some of the more impoverished areas where the tax base is not as substantial. If there is an endangerment to the Canada assistance plan, we are really in trouble, I think, in this province.

Mr. Haggerty: You say you are a little sceptical about what is taking place now with the federal government in this area, that you feel there is a danger there. In what area? Less funding?

Mr. Watts: Mr. Sweeney has alluded to the concern he has about the relationship with the federal government. He cites the child care measures as an example, how they have been shifted from the Department of National Health and Welfare to the Department of Finance and are being held up there. I think he has some viable concerns about that.

Mr. Haggerty: They have some difficulty finding out in which way you should be giving assistance, either to big business or lower-income people. I can see the point.

Ms. Arsenault: Perhaps I could mention too that our national organization, the Coalition of Provincial Organizations of the Handicapped, has worked very closely with the federal government in discussions about CAP and the Vocational Rehabilitation of Disabled Persons Act, recommending that it give more support and not cut and move it to the provinces in that area. I am particularly concerned about the smaller provinces that may not be able to hold up their end of the social assistance.

Mr. Watts: We are concerned that it would represent a short-term

saving for long-term pain, I guess, rather than the other way around, rather than, let's say, a short-term leap in expenditures as recommended by the report, for long-term benefit. We can see that these cutbacks would result in further dependence of disabled people, and of course further expenditures to maintain them on these kinds of marginal programs.

Mr. Chairman: Am I reading into what you are saying a fear that the federal budget, which presumably will come before our budget, might further handicap our ability to carry out even phase 1 of Transitions? Is that essentially what you are saying?

Mr. Watts: No, I am not sure I am saying that. What we are saying, though, is that there seems to be a thread running through this, not necessarily with respect to this year's budget, particularly the federal one, but I think more in the next few years, a concern about that relationship we have enjoyed with Ottawa for a number of years. We have relied on that quite heavily just from the standpoint of the expenditures required to introduce these programs. A lot of the programs that have been introduced have been quite welcome and have improved the situations of individuals.

At the federal level, we could give this example: As recently as 1982, we were all hearing about how seniors were quite impoverished and we even heard stories of people eating pet food instead of human food. Regardless of the credibility of those statements, seniors as a group were in considerable difficulty. Through major improvements at the federal level to raise their incomes upon retirement, generally we do not hear about that any more.

Mr. Chairman: We hear more about grey power.

Mr. Watts: Yes, that is right.

Similarly, if we extrapolate that to this community, we are talking about working age people, at the present time 18 to 65 and under the Thomson report essentially 16 to 65, because one of its recommendations is that the eligibility age be reduced to 16. Then what we are saying is that we believe, and there is considerable evidence to support it, that the needs of disabled people and seniors are somewhat similar. Certainly, the Social Assistance Review Committee report recommendations were that at least in the short term, disabled people achieve parity with the present rates of the guaranteed annual income system for the aged. Although the Gains-A rates are indexed every three months, and I think it is a daunting challenge for the province to try to keep up with that, nevertheless it would be advantageous for that gap to be narrowed even further.

Mr. Chairman: Ms. Arsenault, you were telling us about the lady without the wheelchair not knowing where to turn. The Ministry of Community and Social Services has been testing one-stop access programs where seniors can resource one person who then does the ferreting out of the problem through various aspects of government. Would that have been available to this lady or something similar to it that she just was not aware of?

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Ms. Arsenault: I do not think it is available to disabled persons overall. The problem in her case, of course, was that her health had so deteriorated she did not know where to turn. There has been discussion about a one-stop idea for disabled persons. The reason it has not gone forward is that there is discussion among disabled persons, particularly those who have

invisible handicaps, that they do not want to carry an identity card that says "I am disabled and I have special needs because of it." That would have to be a part of that kind of one-stop system.

The majority of people who are senior citizens and the majority of us who have visible disabilities cannot see a problem with that. We understand the sensitivities of those who would not like to be identified and carry a card saying so.

Mr. Southern: I think disabled people want to use the regular community services and generic services of other ministries or whatever rather than just this one-stop shopping. Again, I do not think that leads to integration. It might be useful for a group like seniors. I do not know; I am not one. With the way services are provided for disabled people, I do not think it is a possibility at this time.

Mr. Beatty: With wheelchairs and other equipment, it is not just a co-ordination problem but perhaps a problem of funding. Let's say an electric wheelchair at a cost of $6,000 may have been prescribed for a disabled person by his or her physician. It is good that we have the assistive devices program which will pick up three quarters of that equipment, but there is still $1,500. For costs like that, we are looking at the supplementary aid program primarily operated by the municipalities.

Mr. Haggerty already alluded to the municipal role. In wealthier municipalities like Toronto or Ottawa, the money is often there, but in some smaller municipalities in Ontario, as the Social Assistance Review Committee found, there is no budget whatsoever. The person is left either looking for private charity if it is available, or family help if it is available, and failing that, doing without the equipment. A key recommendation in stage 1 is to bring the supplementary aid program to the provincial level from the municipal level.

The problem is even greater for those categories of equipment that the assistive devices program has not yet covered. We note that implementation is behind schedule. Other costs that are often just not covered relate to drugs, where social assistance recipients and disabled people on guaranteed annual income system for the disabled get it automatically. We see cases where people get Canada pension disability and sometimes it is more money and sometimes not, but the drug card is gone.

Again, in the larger municipalities, municipal social services may pick that up, but in a smaller municipality, as I said, and in some counties and in some parts of the province where the administration is still at the township level, there is no budget whatsoever. Added to that is the concern of the disabled person in a small community about going to the municipal offices and essentially having to put his hand out to get that. Sometimes the ministry will pick it up through an order in council, but a lot of people do not know about that route and do not utilize it.

It is partly a question of co-ordination, but in a lot of cases we find there just is not a pot of money to go to to pay for it, not even for essential things like assistive equipment, drugs, or particularly in the rural parts of the province, transportation, when there is no accessible transit system whatsoever.

Mr. Chairman: As Mr. Southern was pointing out and the brief points out, the Win system is not working.

Mr. Southern: Nobody is winning on Win; that is for sure.

Mr. Ferraro: I have a couple of questions for the group. Let me premise it by saying it is always difficult to dissociate yourself from the desire for social justice, need and compassion, which I am sure everybody in this room has for the handicapped, but if you will bear with me, I will be so abrupt as to look at it from an economic standpoint because that is the job of our committee.

Just so I understand what the group is advocating, there are essentially two questions. You are saying you want stage 1 fully implemented in the 1989-90 budget year, which according to Mr. Sweeney is $600 million in 1988 dollars. So assuming five per cent inflation, you are looking at about $625 million.

My question is in two parts. First, are you saying you want that 1989-90 year, assuming I am right at $625 million, irrespective of federal participation to any degree? The second part of my question is—I read Transitions months ago, quite frankly, and you can enlighten me—with full commitment to stage 1, are you saying you want Transitions implemented entirely to the tune of—guesstimates—$3 billion to $4 billion? That is what I have heard. The point is stage 1 commitment. What relevance has it, hypothetically, without stage 2 and so forth? Do you understand what I am trying to say?

Mr. Southern: Yes.

Mr. Ferraro: If the economy became terrible, would there be a point in doing stage 1?

Mr. Chairman: If we cannot do stages 2 and 3, is stage 1 worth while?

Mr. Ferraro: What net benefit or ramifications would there be?

Mr. Southern: There is definitely a point in implementing stage 1 without a shadow of a doubt. Obviously, it would improve shelter costs for disabled people and improve work incentives for disabled people. Those are some of the major costs we have.

Obviously, in the long run, we do want to see the whole report adopted. We will see how far that goes. There is a lot of federal involvement, especially with the changes to disability insurance, for example, child support and whatever. There is going to need to be a lot of federal involvement, but I think in the first stage, especially under the Canada assistance plan, the feds would be forced into providing more money. As it exists, we are going to get some federal participation whether we want it or not, as long as you move the rates forward substantially.

Mr. Watts: A few eyebrows would naturally be raised if, for example, we were suggesting purely that expenditures be increased to just improve the allowance rates of these individuals and families without any long-term measures being taken to ensure it was easier for them to work and become less dependent on that system. We do not want to perpetuate more dependency.

But stage 1, I think, was carefully thought out by the committee from the standpoint of not only suggesting those increases occur to approximately 10.1 per cent on the average in the first year, but also to remove, as it refers to it, a host of unfair policies and practices that reduce the

incentive to work and make it more difficult to make that transition possible.

To answer your question, I would say yes, if all of a sudden it were impossible for the province to implement stages 2 and 3 and beyond, stage 1 in itself would still be viable, in particular from the standpoint of removing those unfair rules and then giving people more money to get started to get back into the workforce. Naturally, of course, the report in its entirety is well worth——

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Mr. Ferraro: Is the group satisfied——again, forcing myself from the compassionate and logical reasons of a humanitarian——that there was enough study or proof, I guess, in the Transitions report or the subsequent report to substantiate or indicate the cost savings? I am talking from the standpoint of hard documentation, as opposed to saying, "Yes, if you give somebody more money or if you increase work incentives you are going to have fewer people on social assistance." Again, purely from an economic standpoint.

Mr. Southern: Obviously, as I say, we did not have the money or the time to cost that out. I think if you improve the Win program, you do not have to have a degree in economics to see the benefits from making people more productive and turning them into taxpayers.

Mr. Ferraro: Excuse me for interrupting. I understand what you are saying, but if it were that clear——and I say this with great respect to politicians——why the hell did they not do it?

Mr. Southern: I do not know. Ask them.

Mr. Ferraro: Why did we not do it? If it is that clear that you are going to have net benefits economically, why did we not do it?

Mr. Southern: When the Win program was introduced, I do not know why the government introduced it. At first, I do not think they told anybody about the damned thing.

Mr. Ferraro: I agree with you.

Mr. Southern: There were single mothers and disabled people. I will tell you, I was still meeting people in 1985 who had never heard of the Win program. It might look good in the press for the government when it says, "The government of Ontario introduced this program." Everybody goes, "Oh, wow; great," but then they do not use it or encourage people to use it, and they hope that the consumers forget about it. By now, anyway, it is useless. As I say, I do not think even a single person can benefit from it unless they improve the rate.

That is a good question. I do not know. You know more about government than I do.

Mr. Ferraro: I am not sure I do.

Mr. Southern: I make that assumption, anyway.

Mr. Beatty: I think, Mr. Ferraro, that you have put your finger on the problem. We have had this system based on the Canada assistance plan, which has not been reformed in any substantial way or even changed in two

decades. Also, when Transitions was done, which was a very thorough, comprehensive study, the provincial system had not been looked at in two decades. This system was designed in the 1960s, in another era, when there were different assumptions about disabled people.

The assumptions were that disability meant you were excluded from society. There are just so many incentives built into the system to not work, to be institutionalized, to remain apart from the community, and so many obstacles to integration and being a contributing member of society.

What was needed was to have this kind of report that would pull this together in the same place. There is a lot of experience in the provincial Ministry of Community and Social Services about people getting out to work and about people living more independently, but not the fundamental reorientation of the system.

Mr. Southern: I think this government really should improve work incentives. You know people, our group and whatever, have always said, "People want to work," but the general public often thinks a lot of people do not want to work. They refer to the bums on welfare.

I will tell you one thing I learned from going around Ontario and listening to people make submissions to us. It really has been proven to me—I did not know if it was the case or not—that people really do want to work. I had not only disabled people saying how much they want to work and participate in society, but people on welfare, who were spending money that they needed to spend on nutrition and other items, on producing résumés to do a decent job search. They thought it was more important to spend that money to do a good job search and go begging at the food banks to get food. People really do want to work. I can promise you that.

Mr. Ferraro: I am sensitive to what you are saying. Very much so.

This is the last question I have for the group. They can enlighten me, I hope. Again, divorcing yourselves, which I am sure is difficult, from the compassionate, logical, social justice reasons for what you should do, what resources have you in your group, or indeed should you have more resources, whether in the form of manpower or money, to look purely at the economic ramifications when you make presentations or in your discussions with various levels of government?

The point I am making is we get the first report that says stage 1 is going to cost $315 million and then the minister comes out and logically says that full implementation is going to be $600 million—those are 1988 dollars—and you are looking at $625 million, assuming it is funded in 1989. I guess what I am saying is there comes a point where you need some hard, empirical dollars and cents. Do you have any resources available to you now?

Mr. Chairman: I think the initial estimate was a little higher than that; it was closer to $400 million.

Mr. Ferraro: The estimate was $315 million to $400 million.

Mr. Southern: Maybe that is what it would cost the government.

Mr. Ferraro: Yes.

Mr. Chairman: Supposedly only half of that would be the province's cost.

Mr. Ferraro: Is there a need for groups like yours to give that more attention?

Mr. Southern: For one, we do not have those resources. Admittedly, it would make a stronger case if we had those figures, but social assistance is so bad in this province I do not think we have to prove anything. I think it needs to be improved. Just take a walk around Toronto and you will get all the proof you want. Take a walk around Cabbagetown and go to some of the rooming houses and take a look at the lives some of people live in this great city of ours. It is easy enough to say, "Let's separate ourselves from the social aspects of it and whatever other aspects and just look at it economically." I do not know if you can do that any more. Otherwise, you will never spend the money.

Mr. Watts: It is also a compelling argument to say we cannot afford not to, either. Aside from the more, let's say, direct way of looking at it, that these things should be costed out, history has already told us that the government, to its credit, has put a lot of money into social assistance over the past 20 years. It is at approximately $2 billion a year now in this province. If we could just throw money at things, then our problems would be solved now, but the problems are not solved. The problems are being compounded by a variety of factors. In Toronto, the housing situation is paramount right now.

There is a variety of factors involved. If we cannot implement stage 1 in its totality, as Mr. Sweeney has carefully outlined to us, then he is concerned about this sort of helter-skelter approach that he fully admits the government has taken to a certain extent in the past, responding to crises here and there and just fixing the things as it went. He is saying we do not want to do that with this report; we want to institute stage 1 in its totality and it is a question of finding out how we can afford it.

I think the ministry was not fully expecting the enormous cost involved and I do not think the Treasurer (Mr. R. F. Nixon) was expecting the larger expenditure involved, but it is more a question of present pain for future gain. Down the pike we are going to see increased expenditures, from $2 billion to $3 billion to $4 billion, with not a removal of disincentives, but the same kind of reinforcing the dependency that the people we represent have demonstrated, really against their better judgement which tells them that they want to participate and need that hand up rather than a handout.

Mr. Southern: Yes. Since we started our report, since I was appointed to the committee, I think the number of disabled people going on to the guaranteed annual income system for the disabled rose by about 15,000. It is going to keep going up and up if the government does not do anything about it.

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Mr. Chairman: Retail sales tax on professional services would net us $3.5 billion a year. Mr. McCague has a question.

Mr. McCague: And as long as you remained an MPP, Mr. Chairman, I would not be working to serve as a lawyer.

I think the Treasurer was the author of this committee, some three years ago, to be a sounding board for groups such as yours and to make recommendations to him about how the plight of people might be improved. We

had him up here before us when we started this exercise a few weeks ago. He scolded us a bit for recommending the spending of $10 billion, I think it was at the time. He rather scolded us for that.

Mr. Ferraro: This is an editorial.

Mr. McCague: No, it is not an editorial at all. It leads up to the point that if we recommend $600 million to implement the first phase of the Social Assistance Review Committee, that or something less is the entire figure this committee probably has to come in at. That leads to the question: If SARC phase 1 cannot be fully implemented, is there anything which can be which is of particular value to your people and your group?

The very difficult part of what you are telling us today is that there is a payoff, and you can see that but you cannot put a finger on it. It is just as difficult for me as it is for you to put any cost-benefit analysis on that. Mr. Ferraro is asking you if you have the capability of doing that cost-benefit analysis. I am sure you have some capability, and I am sure the Ministry of Community and Social Services, for instance, or the Ministry of Health must have some way of doing a cost-benefit analysis.

I have two questions. First, to you: Is there any part of even phase 1 which can be implemented which would be universally helpful? The second question, to the chairman, is: Should we be having those ministries here to discuss with them a cost-benefit analysis? It always has escaped me why work incentive, even if it were doubled or tripled, is it not a worthwhile program in the interest of what you want to do and what we want to do, to make people more independent and, as you would say, useful in the community.

Mr. Watts: I can respond to that. First, I think we would hesitate to pull out significantly helpful parts of the whole, given that Mr. Sweeney has said he wants to look at it as a total package.

Mr. Chairman: So did Judge Thomson.

Mr. Watts: Yes, that is right. I think we have tried very hard since September 6 to try and reflect the committee's intention to maintain it as a unit. I think Mr. Sweeney has also admonished any groups who would want to just rewrite the SARC report or put in items that would be of special interest to them or their own pet peeves, as opposed to maybe laying down some of your initial pet peeves for the benefit of the larger group as a whole.

We represent the disabled community, but there are significant measures that need to be taken to improve the situation of sole-support parents and various other groups as well. Certainly we would not want to undermine their efforts to improve the situation of the people they represent as well.

With respect to the cost-benefit analysis, that was one of the final recommendations in the report on, I believe, the very last page of the report. The last five recommendations of the report are crucial. One of them deals with cost-benefit analysis; another recommends that the government respond within six months with a formal plan of what it intends to do with the recommendations. To make the work of your committee much easier, Mr. Chairman, I wish we had the resources to cost out some of these things, particularly from the standpoint of health savings and from the standpoint of how you measure the institutional savings when you set up community-based health centres. It is an enormous problem that has evolved, I think, over a period of years, where you have people, for example, in hospital who may benefit from

community-based health care, home care, this kind of thing, to reduce costs.

We would see this as a major expenditure to get things going and at the same time as there is a strategic plan developed to make the effort to deinstitutionalize people over the long term. We acknowledge that this could not happen overnight and that people's health demands may need to be met by institutional measures.

But the government has been asked by Mr. Thomson to undertake that cost-benefit analysis, I think with some justification, because it would give your committee more teeth in terms of recommending further changes to the Treasurer.

Mr. Beatty: Critical to the cost-benefit analysis, and I hope it is reflected in our brief, is that it requires that the figures and the results be looked at across ministries and over a lengthy period of time where clearly it is more speculative. It seems to us, at least as outsiders, that government officials are focused very narrowly on their own part of the budget, and we do not see the capacity in government to do the longer-term cost-benefit analysis of the kind that we feel should be done. As long as things are looked at year by year and quarter by quarter and ministry by ministry and branch by branch, I do not think you get the whole picture.

I guess what we would like is to have the ministers and their officials asked if the capacity is there to do a cost-benefit analysis. It is clearly not enough just to look at how much it will raise this line in the provincial budget in the next year. You have to look at what the effects are of the spending.

Mr. Chairman: If I may answer the portion of the question that was addressed to the chair, we will ask the Treasury officials, who were slated to come back in any event, to be prepared to address that specific question the next time they come back, as to what extent have they addressed it since September and what they have accomplished. That may assist us a little more.

I should also indicate to the committee that we have invited Mr. Thomson to appear before the committee, and I would think a pertinent question that should be put to him is Mr. McCague's very realistic question: If we cannot do everything, what can we do?

I know he has made the point that it is meant as a package, and we appreciate that it was packaged that way by the committee. I think you did an excellent job in presenting all of the problems and potential solutions, but we are seeing, as a committee, how the Treasurer is faced with a bottom line. We will be receiving other proposals that will be very needy proposals for spending. We will also be receiving arguments, I am sure, as to why the deficit should be tackled more vigorously. What we need to hear desperately, if we are to accept a lot of both of those sets of proposals, is where we can increase taxes--that is the bottom line--or should we be increasing taxes? Should that problem be something we are listening to as well? We have to find a solution that is somewhat successful in so far as everyone is concerned.

I appreciate your submission this morning. I think you have captured the attention of the committee. You should be aware that we are going to be hearing a lot of submissions concerning the SARC report. In particular, we are even thinking of compartmentalizing and having some SARC days before the committee because there is so much of it that various people wish to address. Thank you very much.

Mr. Watts: Thank you.

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Mr. Chairman: Our next witness is Mr. Vezina, who has sent a note indicating he is going to be late. He apparently has a proposal to bring to our attention on the political tax credit. It should be an interesting one. We might take a short break before he arrives, but I would like to discuss shortly with you a decision the committee made last Thursday, apparently on Mr. Morin-Strom's suggestion.

I appreciate the suggestion that we should get started with the estimates for the Ministry of Treasury and Economics in view of the fact we initially asked for them. February 2 was suggested as a date for Treasury estimates. The Treasurer indicated to me yesterday and his parliamentary assistant this morning, and apparently the deputy minister to the clerk, that it is a most inconvenient date for them and they really cannot be prepared on that date.

Bearing in mind the need to get started soon, is it all right with the committee if we schedule further prebudget hearings next week? I should tell the committee we have more requests this year than we have ever had before. Then we will try and get Treasury estimates on as soon as is convenient to everyone.

Mr. McCague: I just have a question. Is the problem the date or Treasury being ready for its estimates?

Mr. Chairman: Maybe a combination of both; I am not sure. The date was what was put to me. Can you help us in that respect?

Ms. Hart: No. I have not spoken to the Treasurer about the problem of being ready. It may well be a problem. He mentioned to me that the date was a problem.

Mr. Chairman: It was the date that he mentioned to me. He cannot be here, the deputy minister cannot be here and Ms. Hart cannot be here.

Mr. McCague: I think the date we asked for was February 2, which is two weeks hence.

Mr. Chairman: Yes.

Mr. McCague: Can we then ask for February 9?

Mr. Chairman: All right.

Mr. McCague: I know you are anxious to be here at that particular time.

Mr. Pelissero: We will still be here.

Ms. Hart: We will be here.

Mr. Chairman: All right; we will ask for February 9 then. In the meantime, we will schedule more hearings on the budget for next week. We will try to schedule two groups we had to cancel this week.

Mr. Pelissero: For next Thursday.

Mr. Chairman: For next Thursday morning. All right. Do you want to take a short break until—Mr. Vezina?

Mr. Vezina: Yes, sir.

Mr. Chairman: Perfect timing.

Mr. Vezina: Thank you. I am sorry. I called in I might be late.

Mr. Chairman: That was understood. We got the message that you would be late and we have been listening to another delegation a little longer than we had scheduled.

Mr. Vezina: I made some copies of my proposal, which I will pass out.

Mr. Chairman: All right.

Mr. Vezina: I think I have enough.

Mr. Chairman: The clerk will distribute those. Just settle yourself down. We have until approximately five to 12 when we may be interrupted by bells.

Mr. Vezina: That is fine. I do not hope to take that long.

Mr. Chairman: All right, go ahead.

GREG VEZINA

Mr. Vezina: I am here really to talk about two issues that directly relate to finance. The first issue is the income tax treatment of tax credits for political contributions which I believe violates six or seven parts of the Charter of Rights and the whole spirit or principle of allowing the public to contribute to political parties or candidates, in terms of fairness.

I think a very strong argument can be made that the present income tax treatment of political tax credits under the provincial Income Tax Act encourages influence peddling. The fact of the matter is that individuals and corporations are treated totally differently, and then individuals themselves are, once again, treated differently.

Any corporation making a contribution in Ontario receives a tax write-off. If that corporation has no taxable income, that corporation can carry forward that tax write-off, so companies can use political tax credits in this year or any subsequent year, regardless.

Individuals, however, are treated differently. I know the chairman of the committee is aware of this because a number of senior citizens have complained to him in the past about this. They took it up with the Commission on Election Finances and its response was: "It is not our job. It is the job of the legislative committee on privileges and elections and of the House."

What happens is that if a low-income Canadian makes a contribution to a political party and he has no taxable income or little taxable income, he loses his tax credits outright. If they have rent rebates, then they receive the political tax credits in lieu of the rent rebates. If you are a

middle-income Canadian or an upper-income Canadian and you have taxable income, then you can get the tax credits in that taxation year. There are no carry-forward provisions for political tax credits.

What this effectively means is that if a low-income Canadian—I will use the example of having dinner with the minister, which is a controversial issue to say the least, and let's say for argument sake—

Mr. Kozyra: It depends who is paying.

Mr. Vezina: Yes, right. Exactly. Whether it is the taxpayer or someone else.

Let's say for argument sake that practice is acceptable—I will not touch that one too much; thank you—and let's say we have two people who want to have tea and crumpets with the minister. One of them is a business person, an accountant or a lawyer who makes $50,000 or $100,000 a year. He contributes his $200 for his ticket for lunch with the minister. He files his income tax return and the taxpayers of Ontario pay $150 for his lunch with the minister.

Now we have the head of a single-parent family, a woman or a man, who is on mother's allowance, who also wants to get access to bend the minister's ear. She pays the $200 to have access to the minister. She does her income tax return at the end of the year and she gets no tax credit. She has paid $200 to have the same access to the minister when someone with a little more money only paid $50. This is blatantly wrong in a democracy such as this.

The Election Finances Act was reformed originally to prevent people from buying elections and to ensure fairness in the system. The system is not fair because it says that if you are disabled, if you are a minority, if you are a woman, if you are a senior citizen, there is according to Revenue Canada—if the committee would like, I will get the statistics—a 70 out of 100 chance that you do not have taxable income. That means seven out of 10 of our minorities are precluded by statute from active involvement in the political process through political contributions. This is blatantly wrong.

The National Action Committee on the Status of Women has not got its hands on this yet. The anti-poverty groups have not got their hands on this yet. A number of other lobbyists for fairness and reform in the political process have not got their hands on this yet. I felt it was only fair to the Legislature, to the members of the House and the committee, that I come here first. I am here.

I have been actively involved in politics since I was 10 years old, and my wife as well. I was a previous candidate in a number of elections. My wife was my official agent. She made substantial contributions to my election campaign and I did her tax return. Between her federal and provincial tax returns for the years 1985 and 1986, we lost $1,200 in political tax credits because she stays at home and raises my family and does not have an income, and yet someone else would have got that $1,200.

I am sorry, ladies and gentlemen; I got mad. I do not like it. I do not think it is fair. As a matter of fact, I think it is abhorrent for us to allow a process that says only the wealthy shall benefit from the taxpayers for political tax credits. That is what I have to say on the issue. I am sorry I am so loud and frank, but that is it.

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Mr. Chairman: That is fine. It is well said.

Mr. Campbell: Just to clarify the issue on the tax credits and allow the witness to pause and perhaps refresh a bit on his second point, I take it you are taking issue with the provincial scheme, not the federal scheme, because they do differ somewhat.

Mr. Vezina: I am here speaking about the provincial one; yes.

Mr. Campbell: You are aware individual contributions could be--I forget the dollar figures but it is fairly substantial per individual. I think the contribution is $750 or thereabouts.

Mr. Vezina: That is correct.

Mr. Campbell: Just to clarify the point, are you saying the excess contributed over $750 was the money you lost or are you saying it is some other issue?

Mr. Vezina: No, it has nothing to do with the amounts. What it has to do with is the treatment. Rent rebates, whether you have taxable income or not, are refundable. If anyone contributes just $100--the limit for a 75 per cent refund is $200, so let's say someone contributes $200. The act says you get a tax credit of 75 per cent or $150. But when you fill out your tax returns to do your tax credits, you find that first you fill out your property tax credits. On the next line it says, "Take the amount of your top property tax credits, take the amount of tax payable and then deduct your political tax credits." If you have no tax payable, your political tax credits totally disappear.

What I am saying is that it has nothing to do with overcontributions. The whole issue is the principle of fairness and equity in tax credits for political contributions of any amount. I am not arguing with the formula or the amounts. I am arguing with the fact that when person A contributes $100 and person B contributes $100, they should be treated the same and not be treated differently just because one of them is poor.

Mr. Campbell: The second point I want to briefly touch on is the question of political contributions. I use the example, I guess in your words, of a corporate entity versus an individual making a contribution to speak to a minister. I perhaps would suggest that "to a political campaign" would be more appropriate. However, you used the words. I wonder how many times that would in fact occur, given the fact that the statement you made was that somebody who was not part of a corporate entity would attend or be interested in attending such a function, and therefore it is maybe a moot point whether or not he would qualify in any event.

Mr. Vezina: I suggest, without being smart, that it makes no difference whether someone wants to attend or does not. The fact of the matter is that the statute should apply equally to all people. My example probably was a bad example. If someone wanted to contribute $100 to my election campaign in my riding or to any member's riding or to a party and he is a poor person, why should he be treated differently from someone who is in the middle or upper income bracket? It is plain and simple.

Mr. Campbell: No, I understand that. The last point is, of course, that many of the social benefits are taxable whether you use the tax credit system, the family benefits system or any other system. Whether or not you are

able under the system to make any contribution is probably a point that would be under discussion. Thank you anyway. I appreciate your comments.

Mr. McCague: I am not sure I recall correctly, but does anybody know what the system is municipally? Is there not an obligation on the municipality to do something in regard to what might be classed as a political contribution?

Mr. Vezina: Yes, there is. As a matter of fact, I appreciate the member raising the issue. The Municipal Elections Act provides that the municipality may opt in to a tax credit scheme. Once it has opted in, the tax credit is refundable. If you have tax owing to the municipality because you are a property owner or a business person, they take it off your tax bill. If you have no tax owing to the municipality, the municipality must give you a cheque for that money.

I find it very interesting that in Ontario, the Legislature made sure municipal tax credits would be fair to everybody, yet provincial tax credits are not. So you are absolutely right by way of example. That is quite correct. Municipally, you give $100 and you get a $75 credit. You either take it off your tax bill or the municipality, if it is opted in, has to write you a cheque.

Mr. Ferraro: Why is that fair to everybody? Not everybody pays property tax.

Mr. Vezina: Because if you do not pay property tax, if you have no tax owing to the municipality, rather than taking it off your tax bill the municipality must write you a cheque for that money. It becomes a refundable tax credit. In other words, everyone can access it whether they access it through their tax bill or through a refund.

Mr. Ferraro: I do not know of any municipality that would opt into that system.

Mr. Pelissero: How many are opted in?

Mr. Vezina: There are two municipalities that have opted in for school board purposes. That was it in the last election.

Mr. Campbell: The hydro commission and the school board.

Mr. Vezina: Right; yes.

Mr. Campbell: That was in one municipality.

Mr. Vezina: Ones in your region.

Mr. Campbell: My area.

Mr. McCague: Whether or not a person agreed with the act Mr. Eakins introduced, there was a principle embedded in it that makes it look as if that is the will of the government. I think it is incumbent upon this committee to at least make some recommendation how the point that has been very properly addressed to us today is addressed by or on behalf of the provincial government.

Mr. Chairman: Yes, message received—at least this far; maybe not the government.

Mr. Morin-Strom: I think a valid point has been made here. We might like to get clarification whether other types of tax credits are generally tax refundable or not.

Mr. Vezina: They are not. To be candid with the committee, the reason they were not made refundable was that the finance department, the minister and the committee on privileges and elections were very concerned about the consequences to the Treasury of a whole bunch of people who traditionally have not made political tax credits making tax credits and of the Treasury having to make a refund rather than taking it in lieu of tax otherwise owing.

The principle of equity in tax credits is not universal, but there are two major, primary examples of where it is. It is in relation to rent rebates, which are universally refundable or otherwise, and it is universally applicable for child care, etc. It is not in other instances. Other forms of tax credits are not universal. They cannot be used or not used. It depends on the legislation and the purpose of the legislation.

My argument is very simply that the Charter of Rights and Freedoms says everyone is to be treated equally, is to have equal benefit of the law. The charter also says we have the right to freedom of association and freedom of speech, and the charter also says we have political rights. My argument is that this committee, should it choose to do so, or the Legislature—I do not believe it would—could not even use the "notwithstanding" clause against what I am arguing if this issue got to court, because political rights are under section 3 and the "notwithstanding" clause can be used only under section 2 and sections 6 to 15.

The political rights that were enshrined in the charter were enshrined in such a way that no subsequent government could ever impede those. What I am saying is this is an even stronger justification for equal treatment than the rent tax credits case or the child care tax credits. This is one where the legislatures, by passing the charter, have concurred that political rights are equal to everyone, and I am saying that this is not.

Mr. Morin-Strom: What about property tax credits and tax credits for seniors?

Mr. Vezina: They are refundable.

Mr. Morin-Strom: They are as well.

Mr. Vezina: They are refundable. Yes, they are.

Mr. Morin-Strom: It sounds as if in most cases tax credits are in fact refundable, at least those available to the general public. Those seem to cover them, the major categories, to my knowledge.

Mr. Vezina: There are a lot of business tax credits, investment tax credits, etc.

Mr. Morin-Strom: Yes, but I am talking about those available to individuals.

Mr. Vezina: I believe the majority of them, especially where they are passed by federal-provincial agreement, under federal-provincial funding arrangements, are refundable by virtue of those statutes.

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Mr. Ferraro: I would like to ask Mr. Vezina a question, just dealing with the one specific issue. If indeed you did not allow corporations to carry tax credits forward, if you took that approach, it would obviously result in a net loss, I would think to some degree, of political contributions on the part of corporations to whatever political party hypothetically. You would have to agree with that.

Mr. Vezina: Yes; absolutely.

Mr. Ferraro: Would you not at the same time have to address—and I would appreciate hearing your comments—the question that is twirling around, particularly in the federal members' minds at the moment: To what degree can private corporations, or individuals to some degree, participate in their own promotional advertising program at their expense to promote one party or another?

Mr. Vezina: Okay. That is an interesting question.

Mr. Ferraro: Because if they cannot get it in one hand and they still want to do it—I mean, is it not—

Mr. Vezina: In the Alberta case, which is the basis of what happened, there was a federal statute that said third parties cannot advertise and the National Citizens' Coalition went to the Supreme Court of Alberta and had that section of the Canada Elections Act ruled unconstitutional and Mr. Hamel did not appeal because he knew he would lose it. There was no question.

There is talk, you are right, of passing rules and regulations that restrict third-party advertising to the same limits as political parties. In principle, I agree with that notion, although I can tell you, as somewhat of an expert on the constitutionality of political rights, that restrictions on third-party advertising during campaigns have been defeated in the US Supreme Court five times and as recently as 1983.

That has happened and, to be candid about it, to me that is not really the issue. I think it would be a mistake to restrict the carry-forward provisions. You cannot restrict the carry-forward provisions of political tax credits, because all that the businesses will do is have their accountant file their tax return in such a way that the first deduction they will take is the political tax credit, so the resulting loss carry-forward would come from pencils and erasers. It is a bookkeeping thing.

There is really no way to do it, and I think it would be wrong to do it because it would restrict what I think is a pretty good system for political parties and candidates to raise money. There is a $750 maximum for contributions to individuals and to parties. It means no one can contribute any more than $1500 except in an election year, and then it doubles. I think any change on that side of the issue would be wrong and counterproductive.

What I honestly and sincerely believe is that political tax credits should be treated for individuals exactly the same way as they are treated for rent tax credits. They should be refundable in lieu of tax otherwise paid. If you do not have tax payable, you get the money back. I think that not to do it, to be quite candid, sends a very, very poor message out to the electorate. It really does, because it says, "Them that has gets and them that hasn't doesn't and our politicians are going to ensure that's the way it is." I think

that is abhorrent. I really do.

I think a very simple change in the legislation would be to strike the section of the Ontario Income Tax Act that is where the problem has been created. It was not created in the tax credit legislation, and I really do not think that when it was originally passed, the members had any intention of restricting political activities or contributions of low- and middle-income Canadians.

I think an amendment to the Ontario Income Tax Act, striking the section that says the credits must be used for tax otherwise payable, would remedy the situation and send a very positive message to the disenfranchised Canadians and Ontarians, because we are really not talking about people who traditionally are involved or who believe they can be involved. There are road barriers as it is.

The data I received from Revenue Canada were astounding when I did the research. About 90 per cent of the disabled have no taxable income, so 90 per cent of the disabled do not qualify for political tax credits. They are already prevented from playing the game; they are already trying to lobby for access and changes.

But you cannot use the big stick, and I am being honest in saying that the biggest stick in political activities is cash. When you make a contribution to a member, his campaign, a candidate's campaign or a party, you get noticed; you get access. That is the way it is.

Mr. Ferraro: Final question, Mr. Chairman: Are you not making an argument for the government or the state if you will, the people, to fund political campaigns in whatever system, per capita or percentage of vote, number of people you represent, as opposed to allowing any contributions?

Mr. Vezina: No. I think it might not be a bad idea, but I do not think that can be done in complicity with the Charter of Rights and Freedoms. Without getting too far off the issue: If you did that, that would mean that you would have to fund the Green Party and the Libertarian Party.

I do not think, to be honest, there are enough members--this is not an insult--in this House who believe strongly enough in democracy to allow smaller political parties to have the same access to capital to fight against them for their seats. It is a function of survival. So no, I do not think--

Mr. Ferraro: I am just arguing principle as opposed to specific--the system as to how you would determine it, if that was the basis.

Mr. Vezina: It would have to be done, again, across the board. They do something very interesting in New Brunswick. They fund parties based on the number of votes they receive, period. For every vote you get, you get a buck; but it means that fringe groups, splinter groups and all kinds of other people who are not in the picture right now are going to be part of the picture. I do not think any member who has a seat is going to want to fund his opponent to take away his seat.

Mr. Haggerty: It is a good thing they have that there, is it not, under the present New Brunswick government?

Mr. Vezina: Yes, absolutely, or there would not be any opposition. Not that there really is anyway.

The answer is no. I am not arguing for an overhaul or a change of the system as it exists here, although I think it is prudent. I am arguing that these are the rules of the game as they apply; make them apply fairly. If you want to change the rules of the game, go ahead; but do it in such a way that they apply fairly or I will be back here again. That is all I am really saying.

Mr. Chairman: Maybe I missed something. Does the federal tax credit have the same problem?

Mr. Vezina: Yes, it is exactly the same federally.

Mr. Chairman: Have you lobbied Ottawa as well, or do you intend to?

Mr. Vezina: Yes, I am in the process now.

Mr. Chairman: Would we be able to rectify this fairly easily with regard to the provincial system, in view of the fact that the feds collect our income tax for us? You say we would have to change the provincial Income Tax Act. We would have to change—

Mr. Vezina: One line.

Mr. Chairman: —maybe the wording on our own part of the form and, if the feds did not want to change it, we could in any event?

Mr. Vezina: Yes, you have the right. This Legislature has the right to pass its own regulations.

Mr. Chairman: We have the right to, but is it something that can be easily done?

Mr. Vezina: Yes. It is a one-line change; it really is. What it says is the same as in rent tax credit. These tax credits can be used in lieu of tax otherwise payable; otherwise they are refundable, plain and simple. We are talking about something that flows through to a citizen after he has made the contribution and when he files his tax return. It is not a tax collection problem.

To be candid about it, I believe that if this committee recommended this change and the House subsequently followed, Ottawa would instantly act and make the same changes.

Mr. Chairman: We might be embarrassing them, yes.

Mr. Vezina: I do not know whether you would be embarrassing them. I think it is an oversight that has not come to people's attention and I think it should. I am loud and verbose and I like to make my point, but I felt it was more prudent to come here rather than go to the newspapers or the lobby groups, because once you get those people after you it is a lot harder to get you to listen or to make a change, because then politics is involved.

Mr. Chairman: You meet resistance. Have you talked at all to our Ministry of Revenue officials with regard to the difficulties?

Mr. Vezina: "It's not my job, man." That is what they said.

Mr. Chairman: It is not their job, no. It is a policy—

Mr. Vezina: They said: "It's not our job. Go to the Legislature. We apply the statutes as written."

Mr. Ferraro: Did you say you had not made a recommendation to Blenkarn's committee or to the Minister of Finance in Ottawa?

Mr. Vezina: As a matter of fact, I was a Tory candidate in the last election and Mr. Wilson was very good to come out to a couple of my rallies. On three separate occasions I cornered him and his officials and hammered him over this issue; not only over this issue but over his changes to the Income Tax Act with respect to tax credits under the federal act. They are not refundable but you can give them to your brother-in-law to use on his return and get the money from him. I told him those would be defeated under the Charter of Rights. He asked who was going to do it. I said, "Sir, if someone else doesn't, I sure will." He knows who I am and he knows I am not kidding.

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Mr. Chairman: That was the next question I had. Are you thinking of going to court if we do not do anything?

Mr. Vezina: I will be in court within 30 days regardless of whether this committee acts. I am deadly serious. I have a seizure of my wife's assets. I have garnishees against her wages, although she does not have a job. The tax department is trying to collect money she does not owe them. I filed amended returns and notices of objections. She has garnishees on her wages, writs of seizure against her property for money she does not owe. Am I going to go away and die? No, sir. I am going to fight this to the top.

Mr. Chairman: If she goes to jail, you will have to stay home and raise the children and then you will have the same problem too.

Mr. Vezina: That is not true actually in this particular case. They cannot do anything now that the notice of objection and appeal process is there. The tax collection act was changed so that instead of being innocent until proved guilty, you are now guilty until proved innocent. The problem is that there are 37 branches of the department and the collections branch does not know yet that we filed notices of objections or amended our returns. It is a logistic, bureaucratic problem.

The fact of the matter is that they are going after us and they are wrong. It is not only for us. I had a number of senior citizens contribute to my campaign. I started getting calls from people when they did their return. They said: "I gave you \$50. You told me that was going to cost me \$12.50. It cost me \$50. You lied to me." Again, I was not aware of this until they went after us. My response was, "I will fix it, one way or another." I think this is the better way.

Mr. Chairman: Message received. Thank you very much. Did you come down here from Ottawa to see us today?

Mr. Vezina: No, I actually moved to Toronto. I wanted to be close to the seat which I am going to get in the House in four years.

I have one other very brief point to make on environmental issues, if I could. Again, this is a finance matter. We in Ontario provide several hundred millions of dollars in grants, subsidies and incentives to industry on an annual basis. Many of the products these industries produce have very serious

environmental consequences. Science and technology have given us competing products that do not cause the same type of environmental damage, but because of the intervention those products cannot compete.

By way of example, I built in 1981 a hydrogen-powered car and set a Guinness world record driving it across this country. A number of members in this House were out front when I was out there on the national news with it. We can produce fuel from electricity, water and air, hydrogen fuel for $1.80 a gallon equivalent to gasoline with no grants and no subsidies, assuming our competitors receive no grants and no subsidies.

I would argue that the finance committee should recommend to the House that some consideration be given to there being a level playing field with respect to government grants and subsidies to industries where the products they are producing cause environmental damage.

I will give you another classic example, Ontario Hydro, which I know is an issue near and dear both to the government and opposition sides, although I do have a letter from the Premier (Mr. Peterson) which seems to say quite different things when he was in opposition from what he has said since he became Premier. I guess that is the trappings of office.

The fact of the matter is that in the United States, there is legislation called PURPA, Public Utility Regulatory Policies Act. What that says is that if I can produce a kilowatt of electricity from anything, the private utilities have to buy that from me at a cost equivalent to their most expensive method of generating new capacity.

What has happened is that 17 per cent of the total electricity generated in the state of California is from nonconventional sources, independent producers, solar, wind, tidal, etc. What it has created is an explosion in environmentally benign development of energy sources. In Canada, the provincial utilities have an absolute monopoly. Although Ontario Hydro has recently talked about paying a little higher price for the generation of power, it will not pay producers the equivalent dollars, which they have to in the United States.

I can tell you that the small-power producers of Alberta are filing a complaint against Canada under the free trade agreement asking the US government to charge a tariff on all electrical exports from Canada, because Canada does not allow independent power producers to compete the same way the United States does. They are claiming that Ontario Hydro as a publicly funded utility is getting unfair subsidies. They have a very good case just on the logistics of it.

When you add the environmental aspects of this, here we are talking about a bilateral agreement with the Americans on acid rain. The Ontario government has gone to the US Supreme Court to challenge the Environmental Protection Agency. I and a number of my colleagues are going to go and intervene in that case now and we are going to say that the Ontario government action should be struck because the Ontario government through Ontario Hydro does not do in Canada what we are demanding it does for us in the United States. Instead of having the support of the alternative energy guys and the environmentalists, etc., the Ontario government is running down to the United States and pointing the finger at them, and there are 27 fingers pointing back at the Ontario government.

What should happen is that we should do exactly the same thing they do.

The big picture actually is even better for us. We are talking about reducing acid rain yet Ontario Hydro burns coal to level its power load; you cannot turn a nuclear plant on and off every 20 minutes. So the Ontario government through Ontario Hydro is creating acid raid to level its electrical load.

If we purchased power from independent producers of small-scale hydro in the thousands and thousands of rivers in this province which could produce hydro if they were given a competitive price to the cost of building a new nuclear plant--what we do not do is zero-base budget. We do not say nuclear electricity costs X amount of dollars because we do not charge the financing costs of the nuclear plant until after the plant starts running.

Nuclear power is 15 mills per kilowatt-hour, but the real cost of nuclear power when you add the financing charges is 95 mills per kilowatt-hour. If we said to independent producers, "We'll give you the 95 mills per kilowatt-hour if you produce power with no environmental damage," we would not need as many nuclear plants, but more important in the short term, we would not burn coal.

Again, it is the same issue. What we need is a recommendation to the Legislature that we have a level playing field, that we allow the winners to be winners and the losers to be losers. I expect that if you asked voters in Ontario if they would spend one dollar for a kilowatt of electricity which does not destroy the environment or one dollar for a kilowatt which does destroy the environment, 100 per cent of them would buy the kilowatt that does not.

Indeed, this government has polls and surveys that show that consumers are willing to pay more money for energy to protect the environment and consumers are willing to lose their jobs to protect the environment. Yet what is the message our government sends? "That's all fine and well for you, but we're not going to take the same activity." There you go.

Mr. Haggerty: That area of Hydro has been discussed in the committee on Hydro since 1975. One of the difficulties the committee had--we did not buy it, but Hydro always based nuclear plants with the cost of coal generation but would not take it from the renewable resources because that would make the nuclear power unaffordable. The cost would be too high.

Mr. Vezina: In fact, it is the opposite, as most researchers and scientists know; it is the exact opposite. The cost of nonsustainable development is more than twice the cost of sustainable.

In agriculture, our crop yields over one decade are down 20 per cent because of the environmental consequences of acid rain and burning coal, etc. Take 20 per cent of our agricultural production and give that a dollar figure, then tag that on to the cost of nuclear power and see what happens. Take the cost of acid rain from burning coal and add that.

Take the medical costs. This is another one. There is now irrefutable evidence that for every degree the pollution index goes up, the percentages of deaths and admissions to hospitals for respiratory ailments goes up one per cent. What is our medical bill: $10 billion or $15 billion a year? Add some of that to the cost of coal and nuclear power and see what you get.

The other thing is to roll in the cost of disposal of nuclear waste, which they do not do. Roll that into the cost and see what it costs for a kilowatt of coal or nuclear power. Get that number and say, "If you can make

us the same kilowatt without destroying the environment, do it," and you know what will happen? We will not have any coal or nuclear plants.

Farmers will set up their own electrical grids with wind generators. We will use ammonia, fertilizers, biomass, biogas. The fact of the matter is that the problem will be solved, because we will say to people, "We'll encourage you to do the right thing. You can do the right thing or the wrong thing. What would you like to do?" They will do the right thing if you ask them.

Mr. Haggerty: I cannot understand why you did not get elected.

Mr. Vezina: Neither could the Ottawa Citizen.

Mr. Chairman: That was a very interesting presentation. Thank you very much.

Mr. Vezina: Thank you.

Mr. Chairman: The meeting is adjourned until next Thursday.

The committee adjourned at 12 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION
ORGANIZATION

THURSDAY, JANUARY 26, 1989

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Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Advocacy Resource Centre for the Handicapped:
Baker, David, Executive Director
Worth, Patrick, Institutional Outreach Worker
McKague, Carla, Senior Litigation Lawyer

From Citizens for Public Justice—Ontario:
Eastwood, Paul, Research Assistant
Kits, Harry, National Executive Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 26, 1989

The committee met at 10:09 a.m. in room 151.

PREBUDGET CONSULTATION
(continued)

The Vice-Chairman: Thank you. I would like to call to order the standing committee on finance and economic affairs. For the viewers' information, we will be in prebudget consultation for the next two hours.

The first group to appear before the committee will be the Advocacy Resource Centre for the Handicapped and then we will have Citizens for Public Justice, Ontario. I will ask David Baker to come forward and anyone else that he would have with his delegation to make their presentation at this time.

ADVOCACY RESOURCE CENTRE FOR THE HANDICAPPED

Mr. Baker: Thank you, Mr. Chairman. As would appear to be the case for this committee, we are also missing one of our members, Patrick Worth, who I hope will join us as we proceed.

Carla McKague on my right and I are here representing the Advocacy Resource Centre for the Handicapped. ARCH is a legal centre with representation from 37 organizations of the handicapped and for the handicapped on its board of directors. We were established in 1980 and we have been active in—there he is. Perhaps we could break for just a moment until Patrick has joined us.

The Vice-Chairman: Okay, no problem. I believe all members will find a written presentation in front of them.

Mr. Baker: The issue we wish to bring to your committee's attention concerns efforts that have been made really since the day ARCH opened to work towards the establishment of an advocacy system for vulnerable adults. Our board, which has 57 members and is broadly representative, as I say, of the disabled community in this province, has identified the establishment of such a system as ARCH's highest priority. We have been working towards that end for some period of time.

On page 1 of the brief, we identify the group of people we are concerned about. They have been identified as being vulnerable adults by Father Sean O'Sullivan in his report on advocacy. Generally, we mean people who have a developmental, emotional or neurological disability. Neurological would include people with Alzheimer's, people who have sustained head injuries, which is an increasing group as a result of improved medical intervention and also persons with acquired immune deficiency syndrome in its late stages. This is an issue for them as well.

We also include in this group seniors to whom medical science feels there is no point in attaching a label. Many in this group also could benefit from the assistance of an advocate, whether they are in an institutional setting or, more usually, a community setting. This is a group which is

vulnerable to abuse, to institutionalization, to overmedication and to the infringement of their rights.

The advocacy system, which we will talk a bit more about as we go along, on which all groups agree—and I think this is another important point, that all groups agree on it—does not reflect the kind of system that was established to protect children. That is, the children's aid society model, the reporting-of-abuse model, which has been discussed, has never been endorsed by seniors' groups. Rather they all feel that the kind of advocacy system that is necessary is one which supports the ability and promotes the ability of vulnerable adults to speak or to advocate on their own behalf and which is accountable to the consumers of the service in some way.

The proposals that are on the table and being discussed suggest that representation from seniors' organizations and organizations of developmentally handicapped people and other vulnerable adults would establish the system with government support.

Before going into the substance of the brief, I would like to introduce Pat Worth, who is ARCH's institutional outreach worker. He also is the president of People First of Ontario, which is the self-help consumer organization of persons who have been labelled developmentally handicapped. He has spoken internationally on this issue.

Pat, I wonder if you would speak to the committee.

Mr. Worth: Thank you for allowing me to be here today. For the past couple of years, I have been working at ARCH as an institutional outreach worker on a project basis. My main job is to go into institutions to help residents there as much as I can and to hear their stories and just to see what I can do about them.

The stories I have heard are that they do not understand why they have been institutionalized and they do not understand why their parents do not come and see them. They do not understand why they cannot have the freedom that you and I have. That is the case in People First of Ontario as well. Most persons were developmentally handicapped and are people who have been deprived of their right to freedom.

A couple of years ago, we did a film called We Can Do It which shows People First members in action talking about their stories. At the beginning of the film, there is a story about Tom and Linda who are a married couple who are also labelled. Linda was very severely beaten and raped by a man. On the day of the trial, they would not allow Tom inside the courtroom to support her. Tom was very angry and that is natural. But during the whole trial, they were asking questions of Linda that she could not understand because she was not prepared. She did not understand what was going on, and the man walked out free.

There have been other cases such as my own, where I was also institutionalized. Many times I remember being beaten unfairly because the staff thought that I did something wrong. I was in a workshop for the so-called mentally retarded, where I made $10 a week just twist-tying dolls and packaging diapers all the time, because people thought that I could not do anything else. I had a best friend who was also in the same institution with me. The staff thought that his behaviour needed to be controlled in a larger institution, so they came along with a straitjacket and they took him away. I have not seen him since.

You will very often hear these sad stories. The reason these stories happen is that there is no foundation for advocacy; there is no clear foundation for how you clearly advocate for a person who is left vulnerable. It is not enough for me to go into institutions and advocate for residents there. I cannot do it all the time. There has to be a clear system where people can truly advocate and be there as much as they can, because they are truly the vulnerable adults. They have no freedom at all.

Freedom to me represents the idea of having control in your own life, being able to do the things you want to do and knowing that somebody will advocate for you if necessary, but also allowing you to have your own voice and not taking control away from you. That is the difference between being powerful and powerless.

I have felt like a powerful person since I have been in the community because people have listened to me and people have allowed me to develop relationships with other people. Nobody is punishing me right now. Nobody is telling me that I have to do this and I have to do that, when to go to bed and when to get up. Nobody is abusing me because I have people around me now who will advocate for me if that ever happens.

I have protection. Everybody has to have protection. You know, you have to have protection from being lonely. You have to have protection from being isolated. You have to make enough money to live on. If you do not have all of that, then you just will not live. You will cease to exist. In institutions, they make you scrub the floors with a toothbrush, they judge your behaviour and they give you cattle prods. They do not try to advocate for you. They come up with ways to control you.

We must not allow that to continue to happen. We have to build a foundation of advocacy, a foundation that says, "We are really here to support you and be with you, speak on your behalf, allow you to speak for yourself, but always be there."

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Mr. Baker: Immediately next to me on my right is Carla McKague, who is lawyer and senior litigation counsel at ARCH. It has also just been announced that she is this year's winner of the C. M. Hincks award, which is the highest award of the Canadian Mental Health Association in this country, for her contribution in the mental health field.

She is also herself a former psychiatric patient, and she will be illustrating both circumstances where an advocacy system would have made a difference had there been one and circumstances where there have been advocates, as indeed there are in certain very isolated situations, and where the advocate has made a difference.

Ms. McKague: ARCH gets an enormous number of phone calls from people who would be the clients of this potential advocacy service we are discussing. We get those calls because there are so few other places to call. We are not advocates in the sense we are talking about today. We are legal advocates for the most part. Mr. Worth has a very specialized role, limited to certain institutions, but most of these situations do not require lawyers. We end up getting involved in some of them because of the fact that there is no less expensive, more efficient system out there to do it.

I want to just give you a few examples of the variety of calls we get

and what happens in those situations. One call we had in the last year concerned a 50-year-old man who was blind and quite seriously developmentally disabled. He was living in a group home in the community. The group home's ideas about what would be beneficial for him and his family's ideas about what would be beneficial for him were poles apart.

Both parties meant very well; both parties did not do an awfully good job of communicating with the other. Tension and hostility between the group home and the family escalated to the point where there were actually criminal charges being laid back and forth and threats and restraining orders and some very nasty things going on.

It is my view that a lot of that happened because there was no neutral party involved, no one to speak for the resident of the home himself, to try to bring those two warring parties to some kind of accommodation with one another or to at least determine if any accommodation was possible. There was no advocate. The situation escalated to everybody's detriment in that particular case.

There is another somewhat similar case we have dealt with: a man a little younger, 35, also blind, also developmentally disabled, in a group home in the community, with some behavioural problems. He occasionally had temper tantrums. When he had temper tantrums, he flailed around and he sometimes hurt himself and sometimes hurt other people.

The group home had chosen to deal with this by using some extremely intrusive techniques of behaviour modification, things like, when he had a temper tantrum, tying him hand and foot, lying him down on the floor and people sitting on him from 15 to 30 to 45 minutes at a time and was looking at the possibility of even more intrusive treatment.

A woman who had been a staff member of the home and had moved on had become very fond of this particular client. She was extremely concerned about these intrusive techniques which were being used which he clearly was not at all happy with. There seemed to be reasonable alternative techniques that could be used to handle the behaviour. She began functioning as a kind of informal advocate for him, but of course she had no legal support. She had no legal right. She had no backing of a system. She was met with restrictions: "We're not going to let you visit the home. If you keep making a nuisance of yourself, we're going to send this chap back to the institution, out of the community, rather than deal with you."

There was someone willing to advocate for him and to attempt to do things on his behalf, but there was no mechanism for making sure she could have access to him and could do what was needed to assist him.

In another case, I was called after the fact, as it were. I was called by a hospital. The hospital staff said: "We've just done something here that in retrospect we're a little nervous about. We want to check with you whether what we've done is proper."

The call came from a hospital unit that specializes in performing cranial facial surgery. I do not know if you are familiar with that. It is used on people who have massive facial deformities, who are so seriously physically deformed that it is just very painful for people to look at them. It is a very high-risk procedure. It carries approximately a 40 per cent mortality rate. What you are doing is actually severing the bones in the

skull, moving them around and replacing them, and the risks associated with the procedure are enormous.

They had a client who was 19 years old, developmentally disabled, no family, living in a group home, and as I say, very severely deformed. Certainly a successful procedure would be to his enormous benefit, but we are talking a very high death rate as well. He clearly, in the view of at least some of the staff, had no understanding of the risks he was taking in proceeding with this surgery, but they did the surgery and they did on his own consent. It worked out well. It was afterwards that they got nervous.

An advocate involved in that situation could have done a couple of things. One of them would have been to work with the young man to really do his best to ensure that he did understand what he was consenting to. If the advocate felt he still was not sure, that he really did not have the understanding, the advocate could have looked around for proper alternative sources of getting a consent on his behalf from someone who had looked at the situation.

Another example of a situation where the willingness to advocate is there without the legal support is a call I had a couple of weeks ago. There are a couple of volunteer citizen advocacy groups in Ontario now, actually more than a couple. I was called by a woman who was with a group called ??Etobicoke Citizen Advocacy who had picked up as a client an elderly woman who was living in a nursing home, a woman rather frail and also with some psychiatric history. She had been visiting her regularly, spending time with her and the woman very much looked forward to the visits.

The advocate had asked a couple of questions of the nursing home operator, such as: "Does Mary have a winter coat? Is there money available from some source to get her a winter coat?" Not what you would call really threatening questions, but just concerned. The nursing home responded by saying: "We don't want you here. We're cutting you off. You're not to come and see Mary any more." They got extremely defensive. Again, the advocate had no right to push entry and was very concerned that if she continued to push entry, she would find that Mary had been transferred back to a psychiatric hospital.

Sometimes that volunteer system is working even without the legislation. It works when the service provider is also interested in having the service provided. For example, we were called by a hospital that had a young man in its neurology ward who was suffering from acquired immune deficiency syndrome. The AIDS had progressed to the point of some neurological impairment. Although he remained quite bright, his current memory was shot. You could tell him something and he would understand it, but he could not remember it for longer than half an hour. It was gone.

They had to carry out an exploratory procedure, because they knew there was one of two things immediately wrong. One of them they could fix and one of them they could not, but they had to carry out exploratory surgery in order to find out which was which. They could not get him to remember what the decision was long enough to make the decision. They called us and asked: "What do we do? How on earth do we get a consent? He's explicitly said he doesn't want his family involved. He doesn't want them to even know he's in the hospital. We can't go to his family and take that route. What do we do?"

What we did was we co-operated with the hospital. We got a volunteer from Toronto Citizen Advocacy with some familiarity in working with people

with AIDS to simply spend hours and hours sitting with him, reminding him, making sure he did not have time to forget, until he had time to weigh the decision and give a consent.

1030

I was also called about two months ago by the mother of a 19-year-old young man who has muscular dystrophy. Muscular dystrophy is a very serious and disabling condition. Life expectancy now is somewhere around 24 or 25 years, I believe. So we were looking at a man who was already quite seriously disabled and with a very short life expectancy.

He had been in an acute care facility and there was a long-term chronic care placement he wanted to go back to. He was getting enormously pressured by the doctor to accept another placement. He was buckling under the pressure. He did not feel he could fight the doctor on this and he was saying, "All right." We were looking at where he was probably going to spend the rest of his short life. It was going to be in some place he did not really want to be.

The mother went to the doctor and said, "Look, he is afraid to tell you, but he really does not want to go back to this place." The doctor blew up, accused the mother of being an interfering bitch who had her own agenda in all of this and he was quite sure that the young man's consent to go to this other placement was totally unforced.

We had an advocate in who could not be accused of having his own agenda. He sat down with the young man, determined what he wanted, went and advocated for it and made sure it was clear to the doctor that the consent was pressured and that the young man did not want to go there. The young man is now going to the facility of his first choice.

We have a couple of systems in place that are effective and authorized to do this kind of thing. I just want to give you three more examples of what happens when we do have a system and how these situations can be resolved without heavy-duty legal involvement, without having to pay lawyers and all those things.

We had a call about a year and a half ago on behalf of a young man who, again, was developmentally disabled, living in the community with his family. He had had the misfortune to be an eyewitness to the rape of one family member by another family member. He was being called as a witness at the trial. He was terrified, confused and did not understand the legal system. The family, of course, with this fairly horrendous event within the family, was not in much shape to provide him that kind of support. It was going through its own hell. One of the family members called us and said: "What do we do? How do we see him through this?"

We were able to access the emergency services of an adult protective service worker or APSW, which is a role very similar to the proposed advocacy role in the O'Sullivan report, who spent time with him, talked to him and was able to do so without the kind of emotional anguish the family was going through. He took him to the court and showed him the courthouse. They sat in and watched a couple of trials so he would get familiar with the procedures. He accompanied him to court and generally was enormously supportive of him through a very trying experience.

That is a situation where all that was needed was short-term involvement as an advocate. Some others you may want to look at were very long-term.

The one exclusive advocacy program that exists here is the psychiatric patient advocate office. There are advocates in all of the provincial psychiatric hospitals. They have succeeded in enormously benefiting their clients. I will just give you two brief examples, one that may sound rather trivial and one that is a little more serious.

One of the advocates discovered that one of the client patients in the psychogeriatric ward in her hospital was an elderly man with an artificial leg. There was an accusation made by staff that somehow this 72-year-old gentleman with an artificial leg had managed to back two staff nurses up against a wall, hold them there and engage in some inappropriate fondling.

I am not quite sure how he managed to do it. I think this was quite an amazing feat if it is true. The point is that the staff response had been to ground him by removing his artificial leg so that he could not get around, just sit on his bed. The advocate was, I think quite appropriately, totally outraged. Those kinds of small-scale, petty, silly disciplinary measures come up a lot.

In the more serious situation—again, I am giving you two examples out of what could be thousands—when the advocate program first began, about three weeks after the advocates arrived at the Queen Street Mental Health Centre, I had a call from one of them saying, "We have someone here who desperately needs legal assistance." One of the things advocates do, by the way, is help people get lawyers when they need them. What we discovered was a man in his fifties, probably of low-normal intelligence, who had epilepsy, who had about one seizure a month and who had very, very strong reactions to anticonvulsant drugs—an upset stomach, a burning feeling.

He had decided at some point that he would rather have one seizure a month than suffer constant side effects from taking the anticonvulsant drugs. This did not really sound totally off the wall to me. It might not be the decision I would make, but it seemed like a not unreasonable decision.

It obviously seemed unreasonable to someone else because as a result of that decision, and only as a result of that decision, this man had been committed to the Queen Street hospital for five years, where they forcibly gave him anticonvulsants, and when he physically resisted, as he was still doing, they forcibly gave him tranquillizers so that he would not refuse the anticonvulsants. That situation had gone unnoticed for five years. We got advocates on the spot and in three weeks, he had a lawyer and in fact we got him out of the hospital.

Mr. Baker: We could go on telling you these kinds of stories for days, if not weeks, because hearing these kinds of incidents fills a large part of our day. The point I want to make now is that this fits together into a larger pattern. It is not a matter of isolated cases or circumstances that do not fit together in some way.

This issue was studied by the Advocacy Resource Centre for the Handicapped for two years. Our focus initially was as lawyers and on the legal process. We went to Mr. McMurtry, who was the Attorney General at that time, and he appointed Judge Abella, who came up with a number of recommendations about access to the legal system.

All the recommendations of that report relating to physical disability have been implemented. None of the recommendations relating to persons who are in our classification of vulnerable adults have been implemented. They related primarily to this question of the establishment of an advocacy system. As you will note on pages 1 and 2 of our brief, Judge Abella's recommendations have been followed by the O'Sullivan report in 1987; the Manson report in 1987; the Fram report, which took five years to come out, in 1988; the evaluation of our institutional outreach project, which Patrick Worth has been instrumental in; the Transitions report by Judge Thomson, and the recommendations coming out of the Attorney General's conference on access to civil justice.

All those bodies have listened and examined the problem, looked at it in a comprehensive way and agreed that there is a major need for this kind of advocacy system we are talking about.

The second point I would make is that there is no disagreement about what needs to be done. We know we agree about the problem. It is not a matter where different groups are fundamentally disagreeing with each other out there. These reports reflect consensus positions of professionals, consumers, volunteers and government representatives, by and large, so it is not a question where we are sort of debating what to do.

Despite that fact and despite the fact this committee urged the government to take some action on this issue last year, there have been three more studies commissioned in this area. They are listed at the bottom of page 2 as items 7, 8 and 9, all doing, we know, very worthwhile things. Advocacy Resource Centre for the Handicapped is represented on two of them. You will notice that Carla McKague is chairing one of the studies.

The point we would make is that the time for studies is long since past. The cost of these studies is enormous, probably exceeding the cost of actually going out and doing what we are asking. We really would urge the government to look at resources as being what is necessary at this point. It is time for some action.

<u>1040</u>

The Fram committee, which is the big overview group that has worked on this issue for more than five years now, was constituted with a mandate that the ministry representatives on the committee were to be involved in financially analysing the implications of proposals. One would have thought that would have in some way linked up with the budgetary process, but apparently it has not.

On November 10, Ian Scott wrote to me stating that he shared the concerns. He basically was agreeing with the proposals or the models that were on the table, but he said: "I cannot simply grab the draft bill and run in the assembly with it. The report calls for the establishment of a public guardian and an advocacy system. That means that money must be found and finding money is not easy these days."

We do not dispute that, of course. We know you are in a very difficult position, but we are pointing out that this is something which has been studied to death. The group we are talking about is not one of the groups that are going to come and picket and demonstrate outside Queen's Park. We are the voice you are going to hear on behalf of this group. But I hope that does not mean that the needs of this group are any less legitimate in your eyes because they are people who are institutionalized or people who literally have no

voice or who are so severely mentally handicapped that they are not able to come forward and present their views.

Our position is not that an advocacy system is necessary, but if you are going to hear from this group, you are going to need an advocacy system to enable them to be here. In this time of fiscal restraint, I cannot come before you and say that an advocacy system is going to be cheap. I would, however, point out a number of things about the costs of the advocacy proposals that are on the table.

First, as Carla has noted, there are services out there now that could be improved upon by restructuring them, not with new money but by restructuring them. The second point is that we do not expect a full-blown advocacy system to appear overnight because the design we are looking at involves, to a very large extent, local communities and volunteers within communities, which gives you the benefit of the involvement of the volunteer, the close connection with the community and the responsiveness to the needs of the local community by the kind of advocacy system we are talking about.

This takes time. You cannot throw a lot of money at this problem and expect that kind of advocacy system to appear overnight. So the short-term financial requirements to get going that we are talking about are not that great, and the long-term benefits of involving volunteers as well as professionals in advocacy are significant and represent significant savings for the government.

Carla has pointed out how there would be savings for the government in terms of legal costs. The Fram report points out that if people are, as they are, going into court and having guardians appointed to make decisions for them, rather than using the approach we are talking about, that ties up the courts and consumes legal aid expenditures. The kind of work we end up involving ourselves in, assisting people through the judicial process, as complainants in the criminal courts and so on, is totally wasteful of the resources that are out there. We suggest to you that an advocacy system will represent substantial savings on the legal side of things.

At page 4 of the brief, we point out how this group of people is overmedicated, by and large, is suffering not only the expense of polypharmacology but the adverse medical circumstances that flow from it. If we are concerned about the costs of drug benefits, perhaps one way is to assist people to be better consumers of drug and other health services.

A third point concerns the issue of deinstitutionalization. Without getting into the debate about whether, for any particular individual, a community placement would be cheaper than an institutional placement, I think it is immediately apparent that it is going to be preferable if the person chooses it. The advocacy system we are talking about is premised on assisting people to make decisions for themselves, to move out and put together better living circumstances for themselves.

This is going to be critically important in this province as we already are facing the problem of huge demands on our health care institutions; with an ageing population, things are only going to get worse. Can we not start putting in place an infrastructure that would allow people to get out of institutions or stay out of institutions and live in the community? There are a number of other ways in which the cost savings could be realized.

These stories we have come to tell you, the models that have been agreed

upon, really come down to the question of whether Mr. Nixon in his budget is going to allocate the resources necessary to move forward. I want to conclude by urging that you once again and, if it is possible, in stronger language, urge the Treasurer to pay attention to these requests. Thank you.

Mr. Chairman: Thank you very much. I want to apologize to the committee and the witnesses for not being here at 10 o'clock and thank Mr. Pelissero for starting the meeting.

Mr. Kozyra: I have two questions. Would you expand for me on the difference in the type of system or systems you envisage as opposed to the resource centre you presently have? Is this one isolated case in Toronto that other communities do not have, and you would see similar things spreading and that could be one formal system?

Mr. Baker: In a nutshell, the distinction is between what lawyers do, because we are primarily a legal centre. We do have the institutional outreach project in which Pat Worth is involved as a pilot project working out of ARCH, but essentially we view ourselves as a legal centre. We do not feel that the kind of advocacy we are talking about, assisting people in going into a courtroom and understanding the role of the judge and so on, requires a lawyer. It is a tremendously expensive way of doing that sort of thing, in fact.

Similarly, going into an institution and assisting people in making their views known to the administration, their problems and concerns, the kinds of things Pat has been talking about, do not require a lawyer. So it is really the distinction between a legal service, which we represent, and a nonlegal advocacy system that we are proposing.

Mr. Kozyra: The second question relates to the costs. Arguments on humanitarian reasons are very compelling, but I found the cost savings argument beneficial as well, because inevitably a lot of these discussions go down to the bottom line of money or lack of it.

I am wondering whether costing has been done on these four aspects you mention to bring the case very much into focus along monetary lines to stress the benefits through the savings; I know it is difficult to arrive at one figure, but perhaps a range from the minimum amount to the maximum amount of savings if a system were implemented to show that there is a large potential here for cost savings.

I think the financial side would strengthen the argument a great deal, to actually show some of these things in more detail. Maybe some of these reports have that already. I am not familiar with the details. I really think that would be helpful, especially in pushing the argument to the Treasurer.

Mr. Baker: If I can just respond to that, I have heard it said by senior bureaucrats within the Ministry of Community and Social Services that the adult protective service worker program which exists for developmentally handicapped people--but not for ex-psychiatric patients, not for seniors, not for persons with head injuries, not for people with Alzheimer's--has been the most cost-effective program of that ministry.

It enabled the ministry to close a very large number of institutions for developmentally handicapped people and to support former residents of institutions in the community, many of whom are now working, living in their own apartments with virtually no support or no involvement from protective service workers.

That kind of cost-effectiveness has been studied. There are reports within the ministry. That has not been done in a comparable way in the seniors' community or for people with head injuries. We would love to have the resources to go out and do that kind of analysis.

Mr. Kozyra: Looking, for instance, at drug benefits: One of the major costs in the health system is drugs and overprescription and so on.

Mr. Baker: The issues we have raised were presented to the Lowy inquiry on drug benefits, and we hope that something will come out of that process.

Mr. Chairman: I apparently should have recognized Mr. Haggerty, but I am asking you to be very brief, if you will, Mr. Haggerty, so we can get started on the second group perhaps before 11 a.m. We do have some matters we should discuss before we leave and we have to leave before 12 noon.

1050

Mr. Haggerty: I have a few questions to follow up on my colleague's questions regarding resource funding.

Many of these agencies now receive resource funding from one of maybe a dozen of the provincial ministries. The Ontario March of Dimes is one that is helped, and I think we had a group in here last week, the Income Maintenance for the Handicapped Co-ordinating Group. There are about 13 or 14 listed in that group which receive some form of provincial funding or assistance.

Is any of that money allocated for the advocacy group you are proposing here to assist those persons who may be offended by someone out there in some institution?

Mr. Baker: Maybe Pat could talk about that. For example, I know that Pat's group, People First of Ontario, has a tiny bit of money in the bank, no staff, no resources whatsoever, and is wondering if it ever will get resourced again. We have been urging that steps be taken to assist those groups in doing their work. I do not think there is much in this area at all.

Mr. Haggerty: For example, recent amendments to the Nursing Homes Act provided some protection that the residents have some rights. There is a group set up in the new act that would represent the persons in these homes. Are you aware of that?

Mr. Baker: Yes, the residents' councils.

Mr. Haggerty: That is correct.

Mr. Baker: We work with them.

Mr. Haggerty: How does that work?

Mr. Baker: Essentially, it is a structure within a particular nursing home. It depends upon the resources of the individual residents themselves rather than either bringing in volunteers or bringing in staff resources. There are some resources I believe through the Ministry of Health for that and we are fully supportive of it.

Mr. Haggerty: What about the legal aid system? Is it helpful in this particular area, any of the paralegal services provided?

Ms. McKague: The legal aid system is set up to provide legal services and that is really what it does. Many of these issues should not have to escalate to that point; they should not have to get to the stage where a lawyer is needed. As Mr. Baker has suggested, it is an enormously expensive way of resolving a dispute. Legal aid does not really have lower-level resources, except for certain particular issues where there may be a community legal worker in a clinic if it is a landlord-tenant matter or something like that, but not a broad range of assistance.

Mr. Haggerty: Where does the Ontario Human Rights Commission come in on this? Does it not have a responsibility in this area?

Ms. McKague: These are often issues that really do not fall under the Human Rights Code.

One of the problems we have here, which perhaps I should have made clearer earlier, is that the law itself, about people of diminished competency making decisions or who has a right to make decisions on their behalf, has an enormous void in it. The law itself is unclear.

Take, for example, the situation of the elderly lady in the nursing home whose advocate cannot visit her, the nursing home said. Technically, the operators of the nursing home have no legal right, in my view, to make that decision. They have no right to keep visitors from her. However, the visitor has no legal right to be there either.

Really, the woman herself is the one who should be deciding whether she wants company. But if she does so and says, "I want this visitor," then she is at risk of being thrown out of the nursing home and there is no law there that we can use. There is no way to go to court and deal with this and it should not have to go to court anyway.

Until there is some kind of legal scheme in place, we need somebody with the skills to go in and defuse that situation, to operate on a totally different level from legal services and go in and be a friend in a way that is not threatening to the organization. What are you going to do? Send a lawyer out to do that at $150 an hour?

Mr. Haggerty: We need another Chief Justice McRuer around to look into the civil rights of persons in this area. I do not know. I am just looking at the question that there seems to be so much doubt out there that you are providing to the committee, yet there seems to be legislation but it is not doing the job.

Ms. McKague: Maybe I should put in a little pitch for the Fram report, which would resolve a lot of the legal issues and which we are also being told there is no money for.

Mr. Chairman: I think you are saying that it is not so much the law that needs to be changed but advocacy to exercise rights or a situation. I think that is what you are saying.

Ms. Hart: Just very briefly, because I know time is short: As someone who is very familiar with People First of Ontario and with ARCH, I want to say to you that you were very effective in bringing about changes to the Nursing Homes Act. I often quote ARCH when I am talking about lobbying techniques, telling people who do not know about lobbying legislatures that one of the most effective lobby groups I have come across is ARCH. I just

wanted to tell you that. For those days when you get discouraged coming again and again, please keep up the good work.

Mr. Chairman: I think Ms. Hart is speaking from experience.

Mr. Cleary: Part of my question has already been answered. In a few cases I have been very familiar with in nursing homes over the years, does this seem to be one of your biggest problem areas, private nursing homes?

Ms. McKague: I would say it is one of the biggest problem areas. We do not have a lot of contact with that area, because most of those calls end up going to the Advocacy Centre for the Elderly. We certainly do get calls but most of that problem is being handled by ACE.

Mr. Cleary: Do you feel there has been an improvement over the last few years?

Ms. McKague: There is certainly more awareness of the issues, more response to the issues and I think, just to push my case a little further, that is largely because of the efforts of an advocacy group called Concerned Friends of Ontario Citizens in Care Facilities, which has been very vociferous and very public about its concerns about nursing homes. I wish we had one of them in every city in Ontario and in every institution in Ontario.

Mr. Chairman: Your presentation has been very persuasive today as well. There is a problem I am sure the Treasurer would want us to look at: the whole question of cost, which you have not denied might be great. It is too late perhaps this morning to open this issue, but which of these reports might we look at to see what has been done about this in other jurisdictions, if anything, and what the results have been as far as costs are concerned?

Mr. Baker: I would say, first, that we understand that there has been costing done within the ministries. Certainly the government would have access to that. Unfortunately, we have not had access to the work that has been done on that.

I know there have been some numbers which have been mentioned to me but I do not feel in a position to speak to that. The international situation was studied by O'Sullivan as part of his review; that is, I would say, the overview report. There is not a lot of financial analysis in there.

Really, the point I would make again is that advocacy is something which, to start, you do not need to spend a great deal on in order to be quite effective. To a certain extent, it is reallocating what it is out there.

You have 130 adult protective service workers. You have the advocates in the provincial psychiatric hospitals. You have the rights advisers out there. You have a number of people. There have been evaluations done which say this could be done better. Start by creating a structure. Start by making those resources work more effectively and, as with the legal clinics, build it slowly over the years rather than say: "Here's $25 million. Go have a good time."

We are very serious about this, that it is not a matter of coming in with money and saying, "Here's a program." In fact, that is why we are critical of a number of the things which have been done in the United States. We have information about the American situation in particular. We are critical of it because the money was poured in without what we call the slow

growth or the community development occurring to involve volunteers, to involve the communities in providing those services we are talking about.

Mr. Chairman: It may be that we would have to be a little more innovative rather than spend a lot of money.

1100

Mr. Haggerty: One final comment, Mr. Chairman, and that relates to the legal costs. It reminds me of that ad on television.

Mr. Chairman: I do not think the $150 an hour for a legal aid lawyer order is necessarily—

Mr. Haggerty: No. I just bring to your attention the ad on television about the maintenance of an automobile. The issue is that if you do not buy a Fram, it is either pay now or pay later, which is going to cost you more. I think that comment demonstrates that the matter should be looked at now instead of going to the higher legal costs.

Mr. Chairman: Thank you very much. We appreciate your coming.

Mr. Worth: Can we make a final statement? The cost to build a clearer advocacy system is going to be a lot, but it will cost the self-advocates and the consumers a lot more if there is not a clearer advocacy system. It will cost them their lives and in many cases it has.

It costs a lot to institutionalize people also. It costs a lot to segregate people. It is a matter of priority. It is a matter of where you put your priorities. It is going to cost a lot to build a clearer advocacy system, but for the people who have been vulnerable, it will cost them their lives if we do not, and if we do, we will save lives.

Mr. Chairman: Thank you very much. That is a good point to end on.

Now we have Citizens for Public Justice, which is an organization this committee is familiar with. They have a submission that is being distributed now. The chairperson is Elske Kuiper and the research director is John Olthuis, research assistant Paul Eastwood. Perhaps you can make yourselves comfortable and lead us through your presentation.

You appeared before the committee last year, as I recall, and your comments resulted in some input into the prebudget report and seem to have spawned, perhaps along with other things such as the Thomson report, a large number of presentations we are hearing this year, dealing with some of the concerns you have. We appreciate your coming back.

CITIZENS FOR PUBLIC JUSTICE

Mr. Eastwood: We very much appreciate this opportunity to appear before you. During our prebudget presentation last year, as you have already remarked, Mr. Chairman, you indicated that you hoped our meeting with you would be an annual event and perhaps even more often. It is with great pleasure that we return this morning.

Mr. Chairman: I hope some day you can be phased out and will not be needed. I hope it is not that long an event.

Mr. Eastwood: Right. We passed out a number of documents to you. We

passed out a copy of our brief, which is quite lengthy; also an opening statement, which we will read to you, and as well a chart for your reference.

Before beginning, let me just introduce ourselves and then ask our executive director, Harry Kits, to say a little bit about Citizens for Public Justice. On my left is Elske Kuiper. Elske is CPJ, Ontario chairperson. She is also a volunteer and board member at Stop 103, which is a large food bank in the city of Toronto. On my right is Harry Kits. Harry is the executive director of CPJ national.

Before we begin, we would like to make apologies for CPJ research director John Olthuis, who is at this moment on a runway in Sudbury because of the icy conditions. He cannot be here this morning, but Harry is sitting in in his place and will do a good job for us, I think.

Mr. Chairman: I had to navigate the highway this morning and it was the same problem. Go ahead.

Mr. Eastwood: My name is Paul Eastwood. I am research assistant for CPJ national. Before we begin with the opening statement, I will just ask Harry Kits to introduce CPJ to you briefly.

Mr. Kits: I am basing my presentation on appendix F of our brief. Citizens for Public Justice, or CPJ, is a 25-year-old, independent, national Canadian citizens' organization that develops and promotes public policy proposals based on biblical teachings of stewardship and justice. We do this via research projects, formal submissions to provincial and federal governments, publication of Catalyst, our bimonthly newspaper, and occasional papers, public conferences and local action groups.

CPJ is supported by approximately 2,500 members across Canada and is governed by an elected board of directors. We have offices and staff in Toronto, Calgary, Edmonton and Vancouver. Our present areas of work include social policy and its relationship to economic development, social assistance, tax reform, justice in education, human rights and native concerns.

CPJ Ontario, the provincial affiliate, has recently contributed briefs to and presentations before the Commission on Private Schools in Ontario, the select committee on education, the standing committee on administration of justice and the standing committee on social development of the Ontario Legislative Assembly. As well, CPJ Ontario made two presentations before the Social Assistance Review Committee and it remains an active participant on the Interfaith Social Assistance Review Committee.

Further information about the organization and copies of any of our briefs and presentations can be obtained from the Toronto office.

I would now like to read from our opening statement, which you have copies of before you, and after reading we will be happy to entertain questions and discussions.

CPJ believes that the government of Ontario faces a crucial time in determining its economic and social policies. The Ontario economy has been expanding for the past seven years. There have been economic benefits for many within the province. However, for many others, poverty amidst affluence remains a reality.

There are over one million Ontarians living in poverty. The Thomson

committee reported that in 1988 there were over 500,000 individuals receiving social assistance, 37 per cent of whom were children. While the Premier's Council informs us that the signs of prosperity abound in heightened personal consumption, growing corporate profitability and increasing government revenues, the extent of poverty in our province tells us something is wrong.

CPJ does not believe that government bears sole responsibility for creating a society where people are accorded a fair standard of wellbeing. Business, labour, churches, communities and individuals all have a role in addressing the issue of poverty. As Christians, we believe that all of society has a special obligation to respond to the poverty. Government clearly shares part of this task.

We are not here to lay blame. We offer some concrete suggestions for government action which will directly address the issue of poverty in our province, both in the short and longer terms. We ask this committee to seriously consider the proposals we put before you. We invite questions and comments and we look forward to a continuing dialogue as we work together to address these important issues.

If we wish to deal with poverty in Ontario, we will be called upon to answer some difficult questions. Will we allow our economy to develop in a way which benefits some while marginalizing others? Will we continue to satisfy our collective conscience with the belief that economic benefits will eventually trickle down to those who face poverty? Will we admit that the pervasiveness of poverty in Ontario, despite seven years of sustained economic growth, should lead us to challenge some of our fundamental assumptions regarding economic policies and planning?

The government of Ontario has an opportunity to take leadership on these questions and to move our province to a more just society. CPJ would like to outline two concrete steps the government can take in 1989 which would move our province in this direction.

Step 1: CPJ calls on this committee to recommend that the government provide adequate funding in the 1989 budget to implement the first stage of the Social Assistance Review Committee recommendations. The Thomson committee report, Transitions, was a result of an extensive process of research, consultation and reflection on the need for reform of Ontario's social assistance system. The committee worked for over two years, holding 23 public hearings and receiving more than 1,500 submissions and briefs.

Transitions has been endorsed by nearly all groups and individuals who are involved with or concerned about social assistance. It stands as its own best advocate and we urge the members of this committee to read this important report. In determining the budgetary priorities for our province, Transitions serves as the most complete statement regarding the needs of the poor in our province and the practical government policies which can help meet those needs.

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CPJ is aware that the government faces many pressures in determining its budgetary priorities. In the short term, the reality is that the extra revenues necessary to fund the Social Assistance Review Committee proposals will add to the already excessive burden on government revenues. The long-term benefits, however, make clear economic and budgetary sense.

In the shorter term, there are a number of ways CPJ would suggest that

the government could raise the estimated $200 million necessary to implement the first stage of Transitions. The total estimated cost is $385 million to $415 million, which would be funded 50 per cent by the federal government under the Canada assistance plan. Thus, the cost to the province would be around $200 million.

CPJ suggests minimal increases in the corporate income tax rate, the establishment of a minimum corporate income tax and the elimination of some tax deductions for corporations. These proposals are outlined in a bit more detail in appendix D of the brief, "The Cost of Implementing Transitions." We can discuss those during the question period.

Step 2—

Mr. Chairman: I particularly appreciate your addressing that issue.

Mr. Eastwood: Right.

Mr. Chairman: Go ahead.

Mr. Eastwood: Step 2: CPJ calls on this committee to recommend that the government of Ontario establish a provincial round table on social policy and the economy. It has become clear to CPJ and many other groups concerned about social policy issues that social and economic policies suffer from a lack of integration.

CPJ is aware that this committee and the government in general will receive a great deal of pressure during this prebudget period. All segments of society have claims for government money and all demand exemption from government taxation. Coupled with an already burdensome provincial deficit, the government is left very little room for action. What is lacking is an effort on the part of government, business, labour, social workers, consumers and others to work collaboratively in determining social and economic policy.

In our submission, CPJ argues that economic and social policies are not well integrated in Ontario. Current economic policies aimed primarily at generating economic growth have produced social inequities and allowed unacceptably high levels of poverty to be sustained.

In Ontario, we have seen the release of two very important documents in the last year: one, the Premier's Council report, Competing in the New Global Economy, dealing primarily with the state of Ontario's economy, and the other, Transitions, dealing with the social needs in the province. There is very little overlap in the issues addressed by these two committees.

The composition of the respective committees is indicative of a nearly complete separation of economic and social policy planning. On the Premier's Council were the following: 13 representatives from business, four from education and research, three from labour, one from the legal community and one from the scientific community. The Social Assistance Review Committee consisted of six representatives from social work, three community leaders, one church leader, one from the legal community and just one business representative. It is clear from the participation of seven government ministers, including the Premier (Mr. Peterson) and the Treasurer (Mr. R. F. Nixon), on the Premier's Council, which of these bodies has more influence.

In the recently released Economic Outlook and Fiscal Review, 1988, there is no mention of poverty in Ontario, the social needs of housing or child care or the growing disparities in income among Ontario's population.

CPJ believes that current government policies are too heavily tilted toward economic infrastructures, as if economic development alone can build a just society and meet human needs. The failures of this single-minded commitment to growth are all around us. We need a new approach: an approach that will provide for social and economic policy integration.

CPJ is not alone in its call for greater integration of social and economic policy. In a 1987 study titled Social Policy in the 1990s, undertaken for the C. D. Howe Institute, Thomas Courchène writes: "...social policy has to become better integrated with overall economic policy. Indeed, from any broad perspective, social policy is part of a country's overall economic strategy. Moreover, the relationship is a two-way street: initiatives on the economic front must take account of the social policy context."

This committee will undoubtedly hear many worthwhile recommendations to be included in its report to the Treasury. If all the recommendations from last year's report were implemented, the estimated cost to the government would have been over $10 billion.

The current process results in a shopping list of requests for funding. Worthwhile social assistance programs compete with health and education, the environment competes with job creation programs and business and industry raise concerns about the deficit, while all groups demand less government taxation for their specific constituency.

What is needed, therefore, is an integrated approach to social and economic policy-making, a process which would take all of these demands into account, providing the government with policy options which represent the collective thinking of the various parties involved. A similar approach, providing for greater integration of economic and environmental concerns, has been initiated with the creation of the Ontario Round Table on Environment and Economy.

In conclusion, we would like to draw the attention of the committee to the chart we have provided. We note that 205,000 children are dependent on social assistance, keeping them well below the poverty line. The Toronto Star has chosen this week to run a five-part series on child poverty and has indicated in its report that there are 350,000 poor children in Ontario.

The effect of poverty on children is to trap them into cycles of mental and physical illness, inadequate education and social conflict. Inadequate social assistance and economic planning keep poor kids poor and are a drain on the province's medical, social and legal systems. They pay in pain and despair; the rest of us pay with increased expenses for health care, education and our legal system.

The government of Ontario is faced with a challenge, a challenge to demonstrate leadership and to wage a war against poverty which takes many of its casualties from the province's children. The government must demonstrate a willingness to take short-term action to alleviate the immediate burden on those most vulnerable. It must also demonstrate a willingness to take long-term action in facilitating a collaborative effort which will prevent the injustices we now face from arising again.

In the 1960s, the people of Canada were stirred to action when they learned that many of our elderly were living in poverty. As a result, we rebuilt the old age security system and instituted provincial as well as federal income supplementation programs. We face a similar challenge today

with those who still endure the oppression of poverty. Unless we are willing to invest in a system that cares for those in need and helps people help themselves, we will have cheated ourselves and the future.

Mr. Chairman: Thank you very much. One of the reasons I think that we invited you back, it seems obvious now, is you are listening to us as well we are listening to you, which is a little frightening. Are there any questions?

Mr. Haggerty: With regard to a question like that, we have had groups come in here the past week talking about the people who are below the poverty level. One of them suggested that perhaps there should be a supplement, earned from the ministry, to the wages of those who can be employed in industry or in some other jobs throughout the community, funding persons on lower incomes. You do not mention that, but I suppose it is in the Thomson report, that somewhere along the line the government has to come forward with some additional funding in this area.

Mr. Eastwood: Yes. In fact, we do mention that in the brief. CPJ endorses in principle the Thomson committee report and basically all 274 recommendations. We would like to see it taken as a package which we believe will make significant improvements in the social assistance system.

One of the things they have advocated in that report is an income supplement for the working poor. CPJ has long advocated that as part of a job creation and social support program we had recommended to the federal government, I believe, in 1985. CPJ fully supports the proposals to supplement the wages of the working poor.

Mr. Haggerty: Unemployment in Ontario is down considerably. The rate is not up around eight or nine per cent like it was a couple of years ago. I know from my experience on councils in the past that we used to take persons from the welfare rolls and put them to work through what we used to call the winter works project or some other project within the community. Have you looked at any areas in there that you could find, that if these people cannot be employed in industry, there is something out there where they could be used in community work?

Mr. Eastwood: First of all, I think it is worth pointing out again that the Transitions report indicates that only 14 per cent of social assistance recipients in Ontario are employable, working-age adults. The majority of them cannot be working in industry or really in anything else that we might consider a typical work experience.

One of the things that Transitions talks about is what it calls a concept of opportunity planning, which would be available on a counselling basis provided through social services for individuals who are receiving social assistance. Basically, as I understand the report's recommendations, it would involve a case-by-case assessment of the potential for the individual recipient moving into the workforce or training programs or whatever the needs would be to move them off welfare into the working economy, as it were. That is the overall philosophy behind the report, the reason for its title and a very important foundation of reform of social assistance.

Mr. Haggerty: Like I said, my experience on a local council was that once those persons were employed in some municipal work programs, eventually the majority of them moved off the welfare rolls, because there seemed to be enough funding there to establish them and let move on to a better-paying job.

It worked back in the 1960s and the 1950s and perhaps a similar program could work today in that area.

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Mr. Morin-Strom: I obviously find the graph very important in terms of breaking down the kind of stereotype we have with regard to those who are beneficiaries of welfare in the province today. So many people believe that it is just adults who have the capability of working and are not willing or do not want to work; but the facts are that those on the welfare rolls do not have the opportunity to work. In fact, the biggest groups of them are children, those with disabilities and senior citizens.

I wonder how we could go further in terms of breaking down the public attitudes with regard to the poor in Ontario. Do you have any suggestions?

Mr. Eastwood: We have included an appendix in the brief: "Appendix E: Public Opinion and Social Programs." Maybe I can comment on what we were trying to point out there. I think it goes a little bit towards answering your question. Then you might want to follow up.

First of all, we begin by saying that governments of course cannot be held hostage to public opinion and have a responsibility that goes beyond whatever current popular belief might be. However, I think it is necessary to assess public opinion and use that as one input into government programs; without some level of popular support, programs will not be very effective in whatever they are doing, whether it is social policy, the legal system or what have you.

Recently, the Gallup poll asked the question of Canadians whether they favoured welfare recipients working or being made to work. The question was: "In general, as far as you personally are concerned, would you favour or oppose making people on welfare go to work?"

In Ontario, 82 per cent were in favour of making welfare recipients work. However, as Transitions has shown, the vast majority of welfare recipients in Ontario are incapable of working. What this says to me and what Transitions concluded in fact is that there is a need for an extensive program of government education and public education to help demythologize some of the concepts we have about poverty and who the poor really are in this province.

A second Gallup question was interesting. They asked: "It has been proposed that instead of welfare payments, the government should guarantee every family a minimal family income. Do you favour or oppose this idea?"

The response there was that only 35 per cent of Ontarians favoured that. That might lead and has led some people to comment that the public generally does not support welfare payments by government and that there is a concept of a high level of fraud within welfare, of its being an inefficient way of government acting in the economy. A variety of beliefs are held around that. I think the minister was quoted in the House as indicating that the government would be moving more slowly on this, and I believe he made reference to this poll.

The Canadian Council on Social Development asked a very similar question, but worded it slightly differently. The question was: "Would you be in favour of a single program, namely a guaranteed annual income, that would put all Canadians above the poverty line?"

In response to that question, 74 per cent of Ontarians said yes. What that says to me is that when welfare is linked to the poor or those who are experiencing poverty, there is general public support for government assistance. In other words, it is not seen as being a waste of money or money thrown away at welfare bums.

I think Transitions has spoken to that in terms of laying out a challenge for public education around welfare recipients. A number of the nonprofit organizations and agencies working on social assistance are taking up that challenge currently to involve themselves in educating the public about the reality of poverty in Ontario. So I think those would be some important notes to consider in terms of public opinion and welfare.

Did you want to follow up or—

Mr. Morin-Strom: Yes. I wonder if you have some perspectives on the same issue with regard to going from those who are on social assistance welfare to the working poor, and what might be done to further bring to public attention the fact that there is also a very serious problem with respect to families where there are income earners working, in most cases, at the minimum wage, at a level of income that leaves those families still at the poverty level. Do you have some particular approaches for the working poor?

Mr. Eastwood: Again, to indicate that there is public support for this, in the same appendix I referred you to, a question was asked, "Do you think the government should supplement the wages of the working poor?" Sixty-three per cent of Ontario residents said yes.

As a principle, CPJ endorses the Transitions recommendations that an income supplement be made to the working poor to bring them above the poverty line. We also would be in favour of the Transitions recommendation that the minimum wage be raised, again, to bring people above the poverty line. I think those are two concrete measures that have been recommended to the government that CPJ fully supports.

Mr. Morin-Strom: The issue of the minimum wage has been a big issue in my community, where there has been a very strong group of people who have been working to do something about bringing the minimum wage up to an adequate level in Ontario. One of the difficulties with the Thomson report, perhaps, is the lack of specificity as to how we should do that and what that level should be. Do you have particular recommendations on the minimum wage?

Mr. Eastwood: No. In fact, that brings to mind the other recommendation we are making, which is the call for a round table on social and economic policy. CPJ is an organization that is involved in many different aspects of work in the whole area of what we call public justice. One of those areas is social assistance. We draw on the resources of research we have within the organization, on individuals who have been involved with the social assistance system, on people who are involved with government programs as well and people who are involved in business and people who are involved in labour.

I think all these parties need to be brought together in a collaborative effort to discuss something like the minimum wage, which clearly impacts on all those communities very directly. I am sure business has some very legitimate concerns about the level of the minimum wage and the viability for its individual enterprises.

In a way, to answer that question for Citizens for Public Justice, I

think the context of a round table, for instance, would be a starting point, where we could dialogue, along with government, with business, with labour and with representatives of the working poor as to how we could realistically institute those sort of minimum wage proposals. Then we could give you some more specific answers and give you some more informed answers, rather than simply demanding that the minimum wage be such and such, and business coming in after us this afternoon and saying, "Do not raise the minimum wage; otherwise this many businesses in Ontario will go belly up."

So the short answer is no and the long answer is, "Look to our second proposal."

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Mr. Chairman: May I ask you where your foundation gets its funding?

Mr. Kits: We get probably about 70 per cent from individual members, the 2,500 who are members, plus maybe another 300, 400 or 500 supporters who have not decided to become members, plus from churches of all Christian denominations, as well as from some granting foundations.

Mr. Haggerty: Just on the point of the minimum wage, have you done any research in this area? What do you think is a fair level for the minimum wage?

Mr. Eastwood: We do not have any studies or research.

Mr. Chairman: They said they do not have a recommendation.

Mr. Haggerty: You have never done any studies. You talk about the guaranteed income.

Mr. Eastwood: Yes. When we talk about supplements to the wages of the working poor or social assistance benefits generally, the position of Citizens for Public Justice is that those benefits and supplements should raise the level of income for those people to above the poverty line, and perhaps beyond that a little bit. Certainly, right now those individuals are living far below the poverty line, as we point out in our brief. As a beginning point, I would say that is an obvious level of funding we would like to see achieved.

I might add that a newspaper, the Globe and Mail, has fully endorsed the Transitions report in an editorial called "To Live in Frugal Comfort," basically agreeing that individuals who are poor and not making sufficient money or those who are on social assistance deserve, as a principle of justice, to be living above the poverty line. I think that would be a general principle. Exactly what figure you want to choose for that is somewhat——

Mr. Haggerty: What is the benchmark in that area? Have we any current benchmark——let's put it this way——when we look at the poverty level?

Mr. Eastwood: Of the poverty line?

Mr. Haggerty: Yes.

Mr. Eastwood: In our brief it is on page 1, "Statistics Canada's low-income cutoffs, known as the 'poverty line,' are set at levels of income where, on average, 58.5 per cent of income goes to food, clothing and shelter."

The poverty line is generally adjusted according to the size of the community in which the individuals live, because expenses in some areas are much higher than in other areas. As to exactly what poverty lines are for specific groupings in society, I do not have those figures very handy at the moment, but Statistics Canada has poverty lines clearly established, as does the Canadian Council on Social Development. Those are two sources that are generally used in determining poverty lines.

Mr. Chairman: Obviously, we are looking through your report right now, and will be some more, but my initial reaction is that this is one of the best prepared packages this committee has ever received on any issue. You got to the nub of it very quickly and you have backed it up with appendices. It is going to be very easy to use as a reference.

On behalf of the committee, I appreciate very much the work you do. It is done very thoroughly and very professionally. My compliments to you and Mr. Olthuis, and to the three of you today for your presentation. It is very good. That is probably why everyone is sitting here saying, "What can we do now?" You have answered so many of our questions right up front.

Mr. Mackenzie: Part of the answer to that is fairly obvious, Mr. Chairman. We should not just use it as a point of reference.

Mr. Chairman: All right. There is a message as well.

Mr. Eastwood: Personally, we would be very interested in having specific reactions from individual committee members to our two proposals; those being, first, the implementation of the Social Assistance Review Committee, and second, the idea of a round table on social policy and the economy. What are your concerns?

Mr. Chairman: You want those to occur in that order, I bet.

Mr. Eastwood: I think they are two different recommendations. One is a short-term recommendation that we feel will help alleviate poverty immediately, which is a responsibility of government. The other is a long-term proposal that we feel will help address the whole process, so these kinds of injustices we are experiencing now will not arise again.

Mr. Chairman: But you do not want the round table to become bogged down in discussing Transitions again.

Mr. Eastwood: No. I think Transitions needs to be implemented now. The homework has been done by that committee and I think done very well. It is not just Citizens for Public Justice—it is not even just, I might add, the social assistance or the social work community—that is very much in favour of Transitions. As I said earlier, the Globe and Mail has come out in support of that. The indications now are that a number of business leaders and the business community are getting on board in terms of the need for this kind of reform.

Mr. Chairman: We are seeing it too in the names of groups that want to appear before us and discuss things. We are quite certain a lot of them are going to be recommending step 1 of SARC.

You have invited responses. You will certainly hear from the committee in total shortly.

Mr. Morin-Strom: I would like to endorse the positions that have

been put forward by your organization. I think you have made an excellent presentation. I hope we can encourage the government to react positively to your recommendations with regard to both the SARC report and the possibility of a round table on social justice and the economy.

I point out this is one of the few presentations we have received that not only looks at what additional needs there are within a particular area, in this case a very important area of our society, but also looks at the potential for funding those needs, something we always have had some difficulty in getting suggestions on.

One of the focuses you have here is on the cost of implementing Transitions. In that section, appendix D, you make some proposals in terms of how it would be funded. I certainly hope we see the full implementation of the first phase of Transitions in the budget that comes up this spring. However, we know there are a number of phases to Transitions. We have not heard very much in terms of the cost for the further stages and what the timetable for the further stages should be, and in fact whether we should be getting into the second stage of Transitions before we let another full year pass and we are well into 1990.

I wonder if you could comment a little with regard to the second stage of Transitions. Under the presumption that the first stage will get adequately funded in this budget, hopefully, what time frame and costs are associated with the second stage?

Mr. Chairman: You should have asked us for the moon.

Mr. Eastwood: The Transitions report itself breaks the process down into five stages and has a time line suggested by the committee, and also, I think, an overall cost of the whole package taken together. CPJ has not attempted to look beyond the immediate future except in terms of the implementation of the first stage in this year.

As we understand it, the second and subsequent phases require changes in government legislation, whereas the first phase basically requires different programs that would be initiated or reformed under current government legislation.

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Mr. Chairman: The second stage also involves federal involvement and federal legislation, I think.

Mr. Eastwood: Right. Again, I do not want to keep coming back to one answer to all the questions, but on the other hand, I think it does speak to one of the problems we see in this process of budget making, where groups are expected to defend on their own their own specific social or economic needs. In this case, in a sense we are being forced to play off the costs of this against the costs of other priorities or other needs for government revenue.

A round table on social policy and the economy could very well address some of these more long-term impacts of Transitions on the economy and on government revenues, and at the same time take into account the recommendations of things like the Premier's Council report or whatever the Business Council on National Issues wants to put forward.

In other words, to consider in isolation the long-term implications for

any social policy just does not make sense. It is very difficult to answer exactly how much it would cost and what the impact on the economy would be. The beginning step has to be made to help modify the process and then we can come to you again and perhaps have some policy options that would have support.

We do not need to be naïve either. By this round table we are not going to come up with policies that everybody agrees to and completely solve all of our problems. That is not our intent. But on the other hand, it would help in terms of preventing this shopping list of demands on the government that seems to be brought forth every year, during budget time particularly. So our second recommendation, if implemented, would go a long way in helping to smooth out the implementation of the second through fifth stages of Transitions.

Mr. Mackenzie: I like the idea in your second recommendation. It makes sense. The provincial round table and discussion may make us serious in terms of what has to be spent on the poorer section of our economy.

My concern, though, is the comment the chairman made earlier on. You have made your recommendations 1 and 2, in that order of purpose. If we do not move on what, in the report, were well-researched and well-developed recommendations that can be implemented in the 1989 budget without too many changes, and if the value of the second recommendation is seen——anybody who is concerned with the issue will see the value of the second recommendation——there could be great emphasis on sitting down and doing this kind of review without going through the recommendations that have already been made. If I stress anything, it is that the recommendations be dealt with and that anything we can do to further them be done in that order: 1 and then 2.

I had a sense in the House when the report came in that the minister, Mr. Sweeney, was sincere and committed on the recommendations that were there in his comments about trying to implement them. I am a little more concerned as to how the mechanics of government will make it difficult to move very quickly on some of those recommendations. I think it is essential that your recommendations be dealt with in the order you have listed them: first, that we go ahead with those measures that can provide some relief and a start now, and second, let's do the review to decide just what our priorities are and how we are going to handle the financing.

I hope there is no effort to switch them because I can see that if we get into the second one first, the work of the committee will have just gone down the drain.

Mr. Chairman: Your message has been received loud and clear. I appreciate your attendance. I hope we will see you next year and maybe thereafter your need will be dissipated; I do not know. Obviously, it will not all be gone by next year. Thank you again for the hard work you have done preparing for today.

Mr. Eastwood: Thank you.

ORGANIZATION

Mr. Chairman: There is a matter of business we can review in some generality. We do not have any response formally from the House leaders as to our request for meeting time during the break period, but I understand informally from a couple of caucuses that there has been tentative agreement on three weeks. It is my understanding from the whip of the New Democratic

Party caucus and the whip of the Liberal caucus that the time they are looking at is in March. I understand, Mr. McCague, you have some other information.

Mr. Reville actually told me it was Mr. Pope who cannot be here in February. I also cannot be here in February, I should indicate to the committee, because I have accepted an invitation from the government of the United States to spend the month of February looking at trade protectionism in that country and how we should respond to that. That does not mean the committee cannot sit in February and complete its work.

Mr. Morin-Strom: It does not sound like an official government activity.

Mr. Chairman: I frankly expect that our report can easily be done in March, in time for a budget, because I do not see a budget coming out until May. Do you have some kind of announcement, Mr. McCague?

Mr. McCague: I was asked if I were free to sit in the three weeks in February.

Mr. Chairman: Oh.

Mr. McCague: I did not raise the issue. I saw the problem and I thought there was probably some problem behind the problem. I thought it was very odd that the House leaders would set up a series of meetings to consider prebudget as late as into April. I think one of the criticisms of this forum has been that we did not get it into the system in time to be of any value to the Treasurer (Mr. R. F. Nixon), that his mind was made up prior to our submissions. While I quickly noted that the times that were set up were not, in my personal opinion, appropriate for this committee, I did not raise the issue with anybody.

Mr. Chairman: Okay.

Mr. McCague: Somehow it has got back into the system; not what I said, but what somebody would think more appropriate. I think that is really February, but I am as anxious to have a few days off as anybody else on the committee.

Mr. Chairman: The weeks that I understand have been considered are the first three weeks of March.

Mr. Pelissero: The last three.

Mr. Chairman: Oh, sorry; it is the end of March.

Mr. Pelissero: The clerk indicated the weeks, I believe, of March 20, March 27 and April 3. In my mind, that is too late for any kind of effective input. Mr. McCague had earlier indicated there were some discussions around the weeks of March 13, 20 and 27. For whatever reason, the March break is split in a number of communities right across the province, ranging all the way from starting the week of March 11 and going to and including after March 24.

If it is agreeable to the committee, I suggest we indicate through you that we seek permission to sit during the weeks of February 13, 20 and 27. If

you physically cannot be here, we will at least start the process off for all or part of that time, so that we can conclude by the end of February.

Mr. Chairman: All right.

Mr. Pelissero: I know the House may still be sitting, but to me, we would have to give serious consideration to whether we want to do any further prebudget consultations if we are going to be restricted to that time frame.

Mr. Chairman: I had not realized they were talking of such a lead.

Mr. Kozyra: I concur that the effectiveness of the recommendations depends directly on how much lead time we are given, and therefore the Treasurer is given to incorporate them. Putting it off late really reduces that. That was our concern last June and I am sure other years. I would support what has been said a little earlier—February.

Mr. Chairman: We do not know when the budget is coming down. I hear the federal House will not be sitting until April or late March. Their budget will be in April and ours has to come several weeks after theirs.

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Mr. Morin-Strom: I would like to reiterate the comments of the previous two speakers. It has to be as early as possible if we are going to have any effect on this budget. We have learned and have been told by the Treasurer in the past that we have to get our recommendations in early. We know they are well in the process, regardless of what the actual date of the budget is going to be. We have already had a committee agreement here requesting three weeks in February.

Mr. Chairman: That request has gone in.

Mr. Morin-Strom: I think we should each approach our House leaders and attempt to get them to negotiate three weeks as early as possible. If we have to do it the last week of February and the first two weeks of March, to me that would be about the latest. I think we should be insisting that this thing be done by the middle of March. If there is any idea that we start in the middle of March and end up in April, I really think we should seriously consider whether we should proceed with the prebudget presentation to the Treasurer, if that is the best we can do.

Ms. Hart: I think it would be a mistake for the committee to assume that this budget will follow the federal budget. It is not necessarily so. The Treasurer has the option of going before the federal budget.

Mr. Chairman: I know he has the option. It has never been done, though.

Ms. Hart: He might take it if the federal budget does not come out until late April or May, in which case that would really make our submissions for naught. It would make our submissions for naught if we were not even sitting until the end of March.

Mr. Chairman: You are saying that our budget could be—

Ms. Hart: It could be first.

Mr. Mackenzie: If our budget came first, then Ms. Hart is right. It is all the more reason why we should not delay at all. Unless he is told in advance, and I have never heard of—they may do it—the federal Minister of Finance doing that, my guess is he is going to want to see just where they are going with the federal budget first.

Regardless of that argument, you have to consider all the arguments and discussion we had in this committee over the fact that a year ago we were making our recommendations when they were already drafting or had drafted the bloody budget. There was a fair amount of feeling about that. I think both Harry and Karl are right. We either do it the weeks of February 13, February 20 and the first week of March, or at the very latest, the week of February 20 and the first two weeks of March. I do not think it can be anything later than the middle of March that we finish.

Mr. Cleary: Are the three weeks spoken of by the previous speakers four-day weeks, or how are we going to handle that?

Mr. Chairman: It is up to the committee to decide how long it wishes to sit. We have a total of 39 presenters we have heard from, so we have 35 left plus 14 who wish to make presentations who came in past the advertised deadline. I would propose that the committee consider hearing from here on in for about 45 minutes each, which would allow us to hear a total of seven presenters each day and that we sit Monday afternoon, Tuesday, Wednesday and Thursday. That would solve it and still leave us three days at least to write the report, maybe longer. We have also invited Mr. Thomson to appear.

Ms. Hart: I do not know if this committee has ever discussed the length of time for presentations, but I have been on many committees where the presentation time is half an hour and that allows many more people to make those presentations. If no one else has suggested it, I would certainly suggest we consider it.

Mr. Chairman: Half an hour?

Ms. Hart: Yes.

Mr. Chairman: The chair has always tried to give them as much as he can. We have tended to be longer.

Ms. Hart: I have noticed in the course of these presentations that many of them could have been made in half an hour. They are excellent presenters. Many of them are experienced presenters and they have good briefs. Surely there is some merit in hearing from as many people as possible.

Mr. Chairman: This is a little bit of a diversion. I think I am hearing accord with the chair that we probably should try to accommodate the 14 groups that came in after the deadline and perhaps shorten it to—I was saying three quarters of an hour; Ms. Hart says half an hour.

Mr. McCague: The House leaders have a tremendous problem with scheduling, complicated by the fact the two opposition caucuses are small. You have put in your request for time in February, I believe.

Mr. Chairman: Yes.

Mr. McCague: They are now working on that and I guess that is why I

was asked yesterday if I was available those three weeks. That was what I was asked.

Mr. Chairman: Oh, you were asked yesterday?

Mr. McCague: Yes.

Mr. Chairman: I think they are still working on it.

Mr. McCague: They are working on it. I suggest we could talk for a long time here, but until we know when it is going to be—I understand you even have a Liberal caucus the middle week of that. Is that correct?

Mr. Pelissero: The week of February 20.

Mr. McCague: Yes, the middle week of that.

Mr. Chairman: That is right.

Mr. McCague: So there are two or three days out too. Why do we not leave it until the next meeting and then decide what the format is going to be for the time we are given?

Mr. Chairman: All right. We may have better information then. We do not have any formal response at the moment.

Mr. Mackenzie: But with a request at the same time that they attempt to schedule it earlier.

Mr. Pelissero: Talk to the House leaders.

Mr. McCague: I think there is a letter in asking for scheduling that starts in February, as I understand it.

Mr. Chairman: We have already put to them in writing our concern to have an early time and there is nothing more we can do formally. Really all we are doing now is discussing rumours.

Mr. McCague: Just to carry on, I think Ms. Hart's idea to shorten them up is a good one.

Mr. Chairman: Mr. Decker has pointed out to me that next week we have two presenters at an hour each. Did you want to try to make that a larger number?

Ms. Hart: Yes.

Mr. Mackenzie: We could always condense the writing of the report.

Mr. Chairman: Do you want half an hour or three quarters?

Mr. Mackenzie: I would, yes.

Mr. Chairman: Half an hour?

Mr. Pelissero: Have you already told them they have an hour? Which two groups are they?

Clerk of the Committee: They are two of the groups that were cancelled last week: Metro Toronto legal clinics and the Child Poverty Action Group.

Ms. Hart: I am sure they would understand that there are many groups that wish to appear before us and that we have to cut their time in half, as long as we give them some notice so they can condense their thinking.

Mr. Pelissero: Compromise: 40 minutes each to three groups.

Mr. Chairman: I suggest that perhaps we go for three groups on the Thursday mornings, because we do—we do not seem to today—sometimes get cut off early by votes and so on. Shall we go for three groups next week then?

Mr. Pelissero: Yes.

Mr. Chairman: Thank you. Meeting adjourned.

The committee adjourned at 11:57 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION

THURSDAY, FEBRUARY 2, 1989

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Pelissero, Harry E. (Lincoln L)
Cleary, John C. (Cornwall L)
Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Hart, Christine E. (York East L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Pope, Alan W. (Cochrane South PC)

Substitutions:
Black, Kenneth H. (Muskoka-Georgian Bay L) for Mr. D. R. Cooke
McGuigan, James F. (Essex-Kent L) for Ms. Hart

Also taking part:
Allen, Richard (Hamilton West NDP)
Farnan, Michael (Cambridge NDP)

Clerk: Decker, Todd

Staff:
Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Social Assistance Action Committee:
Vander Plaats, Nancy, Chairperson; Scarborough Community Legal Services
Abramowicz, Lenny, Neighbourhood Legal Services
Draper, David, Advocacy Resource Centre for the Handicapped

From the Child Poverty Action Group:
Pigott, Susan, Chairperson
Freiler, Christa, Program Director

From the SARC Consultation Group:
Coles, Stewart, Vice-President, Social Planning Council of Metropolitan Toronto
Thornley, David, Social Planning Council of Metropolitan Toronto
Radford, Ben, Multicultural Advisory Committee
McHenry, Michael, Pesident, Blind Organization of Ontario with Self-Help Tactics

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 2, 1989

The committee met at 10:02 a.m. in room 151.

PREBUDGET CONSULTATION
(continued)

The Vice-Chairman: For the benefit of the television audience, we are the standing committee on finance and economic affairs and are involved in prebudget consultation. We have three groups appearing before us this morning: the Metro Toronto legal clinics, the Child Poverty Action Group and the Social Assistance Review Committee Consultation Group. I would welcome the Metro Toronto legal clinics. If you could identify the individuals in your party, we have approximately 40 to 45 minutes for your presentation and or questions and answers. We are in your hands.

SOCIAL ASSISTANCE ACTION COMMITTEE

Ms. Vander Plaats: I am Nancy Vander Plaats. I am the chairperson of the Social Assistance Action Committee of the Metro Toronto legal clinics. We are those lawyers and community legal workers in the Toronto clinics who deal with social assistance matters. With me is Lenny Abramowicz, a lawyer from Neighbourhood Legal Services, and David Draper from the Advocacy Resource Centre for the Handicapped. David Draper is going to start off our presentation today.

Mr. Draper: Good morning. The Social Assistance Action Committee, as Ms. Vander Plaats has said, is composed of people who are actively involved in representing social assistance recipients or people applying for social assistance in Ontario. That involves a number of things: providing summary advice; doing public legal education on the issue; representing clients before the Social Assistance Review Board, which is the appeal body, and on appeal from those decisions to Divisional Court. The clinics also work with recipients and community groups concerned with social assistance.

The Social Assistance Action Committee was formerly known as the Social Assistance Review Board Study Group and focused primarily on procedural issues around appeals. With the appointment of the Social Assistance Review Committee in July 1986, the group decided to expand its focus and look at the larger issues around social assistance in Ontario. That was in reaction to the appointment of the committee.

I also chair something that is known as the provincial legal clinics steering committee on social assistance, which is essentially the provincial version of this Toronto group.

The clinics now in the province number 65 and are located in communities across Ontario. The steering committee has representatives from each of the areas, has been very actively involved in the social assistance review process and has endorsed the submissions that we are going to make this morning.

The focus of our submissions is on social assistance and on the Transitions report. From the sound of your lineup today, that is what you are going to be hearing about almost exclusively.

Essentially, our submission is that this report is a good report. It is one that deserves very prompt and thorough action from the government to work towards implementing its recommendations.

I am going to follow, and I think the other speakers are going to follow, our written submissions fairly closely.

We believe that fundamental reform of Ontario's social assistance system is critical and long overdue. As clinic workers, our mandate is to serve low-income residents of our communities. Those communities differ across the province. As workers in clinics, we face daily reminders of the inadequacies of the present system. I think it is fair to say that there is pretty broad consensus about that, that the system is expensive, is perhaps not based on any well-articulated principles and does not meet the needs most people think the system should meet.

In announcing the Social Assistance Review Committee, the Minister of Community and Social Services, Mr. Sweeney, recognized that the legislation setting up social assistance in Ontario was "designed for a different age." He expressed concern that the "province spends more than $1.5 billion a year on social assistance to some half a million women, men and children. But there is still a problem of hunger and homelessness." We agree from our experience, and over the time of the review process little has changed for the better.

The mandate given the review committee was a broad one, to look at social assistance and at a thorough overhaul of the system. The point I would like to make very strongly to you is that working on the front lines, which I guess is the phrase that is used, many of the people we work with were very sceptical of the appointment of this committee. We were told: "This is a whitewash. This is a way for the government to delay doing something. They're not really sincere about this."

Yet when the committee was appointed, I think people in the legal clinic community and many of our clients looked at the appointments, the actual people who had been appointed and were encouraged by that and by some other things. Movement around the Social Assistance Review Board was one thing. The government seemed to have some commitment to change.

In any event, clinics and many of our clients decided to opt into the process. The time and energy that went into making submissions to this committee were, in our view, truly impressive. The committee received 1,508 written submissions and spent 23 days of hearings in 14 communities across Ontario. We can tell you from the people we know who made submissions that it was not just a commitment of time and resources; it was a commitment in terms of hope for change. A lot of people have put a lot of hope into the process, that this is the chance to really make some change.

In our view, the committee listened. Transitions is a respectful view of those in need and a positive vision of the proper place for social assistance in today's society. Its recommendations are thoughtful, careful and reflect values shared by most of us.

It is remarkable that Transitions has been endorsed by the broad cross-section of groups that has endorsed it. Client groups have found much to like. Social service agencies have been practically unanimous in supporting at least stage 1 of the recommendations. Both the Globe and Mail and the Toronto Star have run editorials supporting the principles of the report and urging the government to move quickly. It is reported in the Star today that

it is expected that business leaders will be contacting the government in the near future to express support for many of the recommendations in the report.

1010

The report was released on September 6. I can tell you personally I am being told by some clients: "We told you so. It has been some time since the report has been released and nothing has happened." We hope that is not right; we hope the sceptics are wrong about the government's intentions on the report.

As I have said, we have some reason to believe that the government is serious. We have seen changes in the Social Assistance Review Board that are positive. In discussions we have been able to have with Mr. Sweeney, we have been convinced that he understands the report and is supportive. The reason we are before you obviously is that Mr. Sweeney and the government cannot do it without funds being allocated. We will speak, to some extent, about the finances that are involved in implementing stage 1 of the report.

I will stop there and turn it over to my colleague.

Ms. Vander Plaats: What does Transitions propose? I know you are hearing from a lot of groups about it. I do not know to what extent other groups are talking about what is in the report. We do not want to bore you with everything you have heard. Of course, you can read the report—it is big—but we still want to take the opportunity to highlight the important principles and the really urgent concerns that need to be addressed in the social assistance system.

Transitions insists that Ontario's present welfare system cannot be patched up; a fundamental restructuring is required. The committee took a long-range look at what kind of system should ultimately be developed to meet the needs of Ontario residents. It carefully laid the groundwork for this new system by setting out the fundamental objectives and the operating principles which should guide the process of reform. Although visionary in its long-range approach to reform of social assistance, Transitions is a practical, achievable blueprint for change; I believe Mr. Sweeney called it a blueprint for change. It proposes implementation in five stages:

"A 'staged' reform process might seem to signal a disappointingly slow implementation of our recommendations. However, the income security system in Ontario and Canada is costly, large and complex, and any attempt to introduce major change must take this reality into account. Some experts have advocated abolishing the current system and replacing it wholesale with a new, adequate and rational system. We believe that this ideal is impossible. Accordingly, we propose a reform process that would incrementally transform the present system, in orderly and understandable steps, into a better one."

The fundamental objective for social assistance must be to help individuals "make the transition from dependence to autonomy, and from exclusion on the margins of society to integration within the mainstream of community life." The current system keeps too many people dependent on social assistance, both by failing to provide supports leading to independence and by rules that function as disincentives to working.

Transitions recommends changing those rules to create real incentives and encourage clients to move towards self-reliance through opportunity planning. This would be a mandatory program for people able to work and would be voluntary for the disabled and single parents, linking recipients with education, training and so on.

This overall theme of transitions, from which the report derives its title, should not be simplistically interpreted only to mean getting people off social assistance. That is the important part of it. Almost everybody who came to the committee said it. One quote they have in the report says, "I just want to get off this thing." That is what most people obviously want to do. Most people want to be working.

Beyond just getting a job and getting off welfare, the concept of Transitions also means providing the means for a disabled person to live with dignity in the community rather than in an institution or on the streets, or ensuring that the child of a single mother is not left out of school field trips because of the extra cost. It is a transition to inclusion in the community.

We would draw from this objective and the idea of Transitions three underlying values: adequacy, equity and fairness. Adequacy is a prerequisite to transition. People struggling merely to subsist cannot develop self-sufficiency. The current rates are severely inadequate by any standards. Even Premier Peterson has stated, "I am not trying to stand in this House and make the case that it is adequate."

This committee will hear about food banks, about the homeless, about the effects of hunger on children's health and on their future prospects. If you are hearing from the Child Poverty Action Group today, you will hear about that. We can only join in the sense of shame that this situation exists in such a wealthy province as Ontario.

One example of where the present rates are extremely inadequate is in the structure that is used to pay shelter subsidies. For those people who are not in public housing, and most recipients are not, there is a structure to pay rent supplements if your rent is over a certain amount, but that is extremely inadequate, certainly in Metropolitan Toronto and the other urban areas of the province.

Without getting into the complex formula, there is a gap. They will not pay you until your rent reaches a certain level, even if that is not covered in your allowance. As well, there is a ceiling on it. The ceilings are extremely low in comparison to today's rents. So this is one of the main reasons, people from food banks have said, for the growth in the use of their services. People are spending at least 50 per cent or sometimes more, even 70 per cent or 80 per cent, of their allowance on rent, because that is not covered. Therefore, they turn to the food banks for food.

To us that is absolutely crucial. To indicate its commitment to the principle of adequacy, the Ontario government must raise the assistance rates to the stage 1 levels, the levels recommended by Thomson, for the first year. These levels still will not be adequate. They are still very minimal levels. However, that is an absolutely essential first step. Without doing that, nothing else the government could do to implement other SARC recommendations will have any real value.

We see the principle of equity reflected in Transitions in a number of ways. First, it means that social assistance is a right available to all members of the community, based on need alone. We have social assistance because we want to take care of people in need; however, the present rules have all kinds of other eligibility factors that do not relate to need.

One example is that if you are a young person between the ages of 18 and

21 who is legally an adult, legally of an age to support yourself, your parents, according to family law, are not required to support you. Nevertheless, if that young person lives at home with one or more parents, he or she is categorically ineligible for social assistance now.

That parent may be on an old age pension. I had a case of a mother on an old age pension. The daughter had no eligibility for welfare, even though it was clear the mother could not support her. Legally, she was not entitled to it. Getting rid of some of those categories that have nothing to do with need is important.

1020

There is actually another example I would like to highlight quickly. There is a question in the present legislation. If a child of a single mother drops out of school, that child automatically gets cut off the allowance, or if that is the only remaining child of the mother, the mother would completely get cut off family benefits.

We had a case at our legal clinic where the child was only 14 years old. The mother was working with school counsellors and trying to get her back into school. She was even in another program but it was not actual attendance at school. The mother is completely cut off. That had nothing to do with the need of the mother and daughter.

Those kinds of things, Transitions says, should be got rid of. Of course, having children attend school is an important objective in our province, but it is not an objective of the social assistance system primarily. That should primarily deal with need.

There are also discrepancies today between what is available to people in different areas of Ontario. In some of the rural areas, people cannot get some of the items of special assistance, extra needs, that could be available in Metro Toronto or the cities, so in stage 1, Transitions proposes consolidating the unconsolidated municipalities so that they can provide the same as the larger cities.

In the longer run, equity means developing new legislation for one provincial system rather than the present two different laws, general welfare and family benefits. Equity also includes accessibility for ethnic minorities.

The third underlying value is fairness. Reforming the system to promote fairness would include reducing the categories, which presently seem based on a hierarchy of deservedness. The current 22 categories would be changed to three. All recipients would generally have the same rules regarding assets and allowable earnings and so on. Fairness would also be promoted by reforming the procedures used at all levels of the system, opening up access to information and limiting and more closely defining the role of discretionary decision-making.

As legal workers, we tend to notice the procedural and appeal areas. We have long focused on the need for reform to the Social Assistance Review Board, which hears appeals of welfare decisions. The government actually has begun the process of reform there without waiting for the Social Assistance Review Committee by appointing a new chairperson and highly qualified board members, training the board and so on.

Much remains to be done at the review board. A chunk of Transitions'

recommendations are about appeal procedures. We simply urge the government to provide the resources to the Social Assistance Review Board so it can get on with its job.

However, very few matters ever get to that formal appeal stage. Fairness and due process must be built into the system at every level. Transitions notes that arbitrariness is rife in the present system, but the report insists that though discretion can be reduced and the quality of discretionary decision-making improved, discretion cannot be eliminated entirely because special needs and unusual circumstances must be allowed for.

There should be no discretion regarding the basic necessities of life. Many items not now provided should become mandatory. Transitions generally recommends a less intrusive system with a basic attitude of respect for the individual.

Crucial principles of fundamental justice are not observed in the present system. Transitions recommends that when benefits are to be cancelled, adequate notice with meaningful reasons must be given to the applicant. Presently, under the General Welfare Assistance Act, there is no notice required at all.

A person who depends on welfare for his only livelihood--as we have said, not even as adequate a level and yet something that does help to feed him--can just be cut off with no notice whatsoever. There at least has to be notice given. It is a fundamental right of almost any more-well-off people when dealing with government of any kind or in the justice system. Notice is so fundamental, but those fundamental rights are not recognized yet for the poorest in our system.

There should be more information about the rules and benefits available. As well, their own file should be accessible to all clients.

While these and other procedural concerns are reflected in clinics' day-to-day work, we have never supported an advocacy-driven or a legalistic system. In fact, there was one background paper that was commissioned for SARC that proposed a whole new set of external advocates for the welfare system. We opposed that. We would rather see simplicity in the categories and rules and procedures so that most people could receive the assistance and the training or opportunity planning they need without using external advocates.

Our concern, even more than seeing procedural justice done, is seeing that our clients receive enough income for themselves and their families to rise out of poverty and live in dignity.

Mr. Abramowicz: I will deal with the implementation of Transitions. Probably you could call it more the nuts and bolts of the issue.

One of the most striking aspects of Transitions is its comprehensive nature. For those of you who have not seen it, this is the report. It is quite weighty and it has 274 recommendations.

The Social Assistance Review Committee refused to simply examine any single aspect of poverty in Ontario in isolation. While Transitions proposes 274 recommendations covering every aspect of the complex and fragmented social assistance system, these recommendations were expressly created as a package. To quote from the report:

"Movement towards reform must be properly harmonized. If the government were, for instance, to make a major move to create new incentives for social assistance recipients to work without beginning to address the problems of the working poor or social assistance adequacy, it is likely that the anomalies created would lead to failure and the ultimate rejection of reform."

We echo this concern. We think it is crucial. In a reform initiative that is so vast, it is tempting for those charged with its implementation to select out the most attractive, least complicated, and frankly, the least expensive or more politically saleable aspects of the report for enactment.

We believe this approach would produce disastrous results. Very few recommendations in the report can stand on their own. The report expressly is an interlocking whole that is certainly far greater than the sum of its parts. In fact, some of its parts, if used in isolation, would "lead to failure and the ultimate rejection of the reform."

The clinics are heartened to see that the Minister of Community and Social Services (Mr. Sweeney) publicly agreed with this position on a number of occasions in the House. In response to a question in the Legislature on October 17, 1988, he stated, and I quote from Hansard:

"Neither this minister nor this government should take bits and pieces out of that and implement them apart from the entire proposal; that it is designed very specifically to be a package proposal and that, in fact, that is what we should do."

Again on October 18, Mr. Sweeney rose and stated:

"The report also clearly says that the whole report has to be considered as a comprehensive whole. It cannot just be taken in bits and pieces. It indicates very clearly that if only one element of it is dealt with, in fact, you could end up doing more harm than good."

<u>1030</u>

We echo this concern and we share it. We are glad Mr. Sweeney has stated it so clearly.

There is no escaping the reality that the SARC report, if fully implemented, would involve a significant commitment of government funds. However, we must also recognize that today the government spends great amounts of money on a social assistance system that has proven to be ineffective and has provoked anger and frustration from both its recipients and its providers.

Investing revenue in a system that works is a better idea than continuing to pour dollars into one that perpetuates dependency. I guess the saying that springs to mind is that of throwing good money after bad. Why do that when in fact you can perhaps invest a little more money and create a system that will work and might do what it is intended to do?

The Transitions report, which dealt to some extent with these financial issues, relied on Donald Macdonald's Royal Commission on Economic Union and Development Prospects for Canada——cited in Transitions at page 524——which found that social spending might actually contribute to a society's economic growth, not only social stability but economic growth, rather than impede it. The potential economic benefits of social spending were also identified in a

recent study commissioned by the Ontario Ministry of Treasury and Economics. Again, those two reports are referred to at page 524 of the report.

SARC's study of US initiatives in the social assistance field produced the revealing information that although these initiatives can have large startup costs, if well designed, these programs can lead to actual budget savings over the long term. Specifically, savings in health care, housing and unemployment insurance premiums could be the result of a serious upfront investiture of money into a comprehensive, well-thought-out, well-planned social assistance system.

Really, in the end, the decision to allocate the funds necessary to implement Transitions' recommendations is as much a political as an economic one. It is a question of this government's policy priorities and political commitment to dealing with the problem of poverty in Ontario. A brief glance at some numbers illustrates this.

The government's budgetary revenues for the 1988-89 budget year are estimated at $36.5 billion, an increase of 36.7 per cent from 1985-86 when the Liberal government first took power. The government has consistently underestimated its revenue potential. The Ministry of Housing has underspent its allocated budget by $91.6 million over the last two years.

The Ministry of Community and Social Services, the ministry entrusted with enacting this report, has spent $15 million over the last year and a half on a computer system that is overdue, over cost and was specifically created to handle a social assistance system that includes 22 various categories of recipients. This is something Transitions hopes to do away with, which will do away with the need for this complicated and inefficient computer system.

We acknowledge that your job is a difficult one, that allocating money for a budget is always going to be a difficult balancing act. We are not trying to claim that social assistance is more important than Education, Health or any of the other ministries that are obviously demanding money. What we are trying to say is that social assistance and adequacy for people is a prerequisite. It is something that is part of all the other ministries' work, the education and health factors. If you provide adequacy, the drains in those areas might not be as strong.

This is what we are asking you to keep in mind, that adequacy in the social assistance field and creating a proper social assistance network is something that will be of benefit throughout the province and would be dollars well spent. Furthermore, it must be kept in mind that any money spent on the Ontario social assistance system is cost-shared, through the Canada assistance plan, on an equal basis with the federal government.

In conclusion, Transitions is the result of the first and only thorough review of the Ontario social assistance legislation since the current system was developed in the 1960s. The government, the Ministry of Community and Social Services, community organizations and recipients have already invested substantial resources and effort during the two-year process. These proposed reforms provide an opportunity for the government to take an innovative approach that would result, in the long run, in a much smaller social assistance system.

Recommendation 271 asks the government to issue a statement within six months of the release of the report indicating what action it intends to take. While we look forward to such a statement, we expect more than words. The

government's commitment will be indicated much more clearly by whether it moves immediately on the stage 1 recommendations. It will be, of course, this committee that will have to recommend the money for that. The question is not, "How can we afford to implement Transitions?" Considering the human misery and waste created by our present system, it is, "How can we afford not to?"

Thank you for your time. We certainly would be open to entertaining any questions you might have.

The Vice-Chairman: I ask any of my colleagues if they have any questions. We have anywhere between eight and 10 minutes left if there are any questions for the presenters.

To start off, as you are aware, the federal government, in the recent cabinet reshuffle, has indicated that deficit reduction is certainly going to be a priority. On page 13 you say, "Furthermore it must be kept in mind that any money spent on Ontario's social assistance system is cost-shared on an equal basis with the federal government." I would be interested in your thoughts on whether if that cost-sharing arrangement changed, you feel we should go ahead with SARC.

Mr. Draper: The whole issue of the Canada assistance plan certainly is an important one. As I am sure most of the members know, the advantage we have right now is that CAP is an open-ended, cost-sharing arrangement. It allows the provinces a great deal of latitude. Movement on this report certainly is easier with that kind of open-ended, cost-sharing arrangement.

I do not know what the political realities are about changing that. The provinces have a very large stake in preserving CAP. I hope it would be difficult for the federal government to change the system in a way that would cut available money to the provinces in any dramatic fashion. The politics of that would seem awfully difficult, because the provinces all have a stake in preserving that ability.

If CAP disappeared, could you do it? It depends on what it was replaced with. If it were replaced with a cost-sharing arrangement that recognized the principles in this report, the answer might well be yes. Frankly, as I understand it, the response to the report from across the country has been very positive. In face of that it might be difficult for the federal government to negotiate a change in CAP that did not recognize some of the principles in this report around adequacy.

In the final analysis, on the preservation of CAP or the renegotiation of CAP, I think you can argue both ways. It might be a terrible thing. There is some argument that it might be a good thing. CAP has some restrictions in it; asset limits, for example, is a problem we run into and is mentioned in the report.

Mr. McGuigan: Before I ask my question, I should point out that by asking this question I hope no one labels me as being opposed to these matters, because I am generally in favour of them. You point to the United States as a sort of shining example--again, I may be showing my ignorance--but what you see in the streets in the United States makes our system look like heaven, at least in the visual aspect of it. I wonder if you can tell us more about that middle paragraph studying US initiatives.

Mr. Abramowicz: The report specifically refers to and studies just a couple of programs that have been initiated in the United States. They refer

to one in San Diego, California, for example, where they examined American attempts to deal with exactly the problems we are dealing with, the serious gaps in the welfare system and welfare systems that have become welfare traps.

This is something Americans are very interested in. What they looked at was programs in, as I say, just a couple of jurisdictions in the United States—San Diego is the one they refer to—where a significant amount of money on an upfront basis was set to allow for adequacy, to allow people to then go out and do the necessary things to get off the welfare system. Those were found to be successful. Admittedly, they were found to be successful over three-, four- or five-year periods. Initially, there was a high startup cost and then over a long-term period they were found to be successful in that people were getting out of the welfare trap, were going to work, were able to break out of the system.

1040

That is the type of thing that Transitions has to turn to. I admit, and I think the report admits, that we are talking about isolated examples in the United States and, overall, certainly the American experience is not brought into this, primarily because, I believe, of the fear that initially, in the first couple of years, you have got the startup costs. There has to be a commitment to some extent and a statement that the existing system does not work right now.

Mr. Draper: I think if you offered us a trade of the US social system for the Canadian social system, it is a trade we would not take either.

Mr. McGuigan: Just to follow up. Do you know about those isolated systems? Did they carry on, or was it just a short-term experimental thing?

Mr. Abramowicz: My understanding from reading the report in this area—and it is discussed on page 525 of the report—is that these are ongoing programs in the United States. Generally they have been found to be successful, and they have continued with them. But again this is certainly not an overall, global picture of social assistance in America.

The Vice-Chairman: And now to give the last question to Mr. Pope.

Mr. Pope: I have a couple of concerns. First, an adjunct of the family benefit system as I understand it, the way it is implemented in my part of the province in any event, is vocational rehabilitation assistance.

I am increasingly concerned about the fact that that system is virtually nonexistent, at least in northern Ontario. It takes six months to get an appointment to see the vocational rehabilitation counsellor and there is only one for the entire region. I know this from experience of my own brother-in-law, who has a very specific disability.

I find that municipalities in our part of Ontario have taken their own initiatives because of an actually declining service from the Social Assistance Review Board, with very few members now wanting to travel outside of Toronto, with greater delays in hearings, with a greater disparity in service to the people of this province over the last three to four years than there has ever been. It is growing; it is not getting better. I find the municipalities in my part of the province, in the far north, are actually hiring people to try to directly help, outside the general welfare system, recipients and those in need of these kinds of services.

What I would like to have is your thoughts on how some of these municipal efforts and some of these inadequacies can be addressed immediately. I am not talking about the adequacy of the welfare assistance level. I understand a lot of the asset tests and the income tests and I have run into cases myself in my casework with respect to dependents and leaving school and all those things, so I understand those points. But how are we going to immediately address some of the inadequacies that are forcing municipalities to act on their own?

Mr. Draper: There are at least three major issues in that, I think. One is the whole role of vocational rehabilitation. I work at the clinic that deals with the disabled and it is a big concern. You just cannot get into the system. When you get in, the system is not all that bad.

I think the report has recommended making vocational rehabilitation more of an integral part of the system. Right now, it functions sort of on its own as a smaller part of the system, and I think that it is a good conceptual change to make it part of the core system.

The report deals with delivery and talks about municipalities which are able to provide the necessary level of service being the service providers by agreement with the province. Now, I will say that is not meant to happen in relation to the disabled. The report specifically says the disabled services should be centrally administered. I think the concern is there, just to ensure that the standard that is available is uniform across the system.

The problem now is that the standard under the Vocational Rehabilitation Services Act is not bad. You just cannot get into it. I share your concern. I forget the third point that was raised, but my time is probably up anyway.

The Vice-Chairman: Thank you very much for your presentation. I would ask the representatives of the Child Poverty Action Group to come forward, please. Would you identify yourselves and tell us who is going to be making the presentation? We have approximately 40 minutes. We are at your disposal, so if you want to use some of the time for the presentation and leave some time for questions and answers at the end, that would be appreciated as well.

CHILD POVERTY ACTION GROUP

Ms. Pigott: My name is Susan Pigott. I am the chairperson of the Child Poverty Action Group. To my right is Christa Freiler, who is the program director for the Child Poverty Action Group.

We are pleased to have this opportunity to make a presentation to the committee. We were here about a week and a half ago when the meeting was cancelled. At that time we left a package of materials for all the committee members, which I believe you still have. Some of our material relates to the national income program for children and also our formal presentation for today.

We would like to take you through our presentation. I plan to read it. It should take less than five minutes and then we would welcome any questions.

Ending Child Poverty in Ontario: An Investment in All Our Children, is the title we have given our presentation. Christa and I represent the Child Poverty Action Group, a public interest advocacy and research organization founded in Ontario almost four years ago. The group grew out of a conference

called Child Poverty: Ontario's Moral Shame, cosponsored by a number of Ontario social planning councils and provincial organizations.

The Child Poverty Action Group is committed to two goals: eliminating child poverty and ensuring that all children have equal life chances for their development. It is our conviction that, ultimately, a national income program for children is needed to end child poverty in Canada. However, we are here today because Transitions, the report of the Social Assistance Review Committee, has placed Ontario in a unique position to assume a leadership role in addressing child poverty over the next few years.

Before highlighting some of the ways in which Transitions would have a direct and dramatic impact on the lives and futures of Ontario's children, we would like to present a picture, very briefly, of the dimensions of child poverty and its social and economic costs to Ontario.

In the words of the American novelist James Baldwin, "The children of today are all our children, and we profit or pay for what they become." Nearly one out of every six Ontario children is growing up in poverty today. About two thirds of these children live in families that are on social assistance. One of the SARC report's most shocking findings was that 41 per cent of the beneficiaries of social assistance are children, with the largest increase being children under the age of five.

What does growing up poor mean to these children and to the rest of Ontario? To poor children it means: increased health risks, including a greater likelihood of dying in infancy or early childhood, and far higher rates of chronic health problems than other children; a higher risk of psychiatric disorders; poor nutrition and inadequate housing, and poor school performance and higher school dropout rates.

These risks add up to greatly diminished life chances for children growing up in poverty, all too often determining where they will end up as adults.

The social and economic costs of child poverty are staggering to Ontario. We know that children from low-income families are overrepresented in our child welfare, juvenile justice and children's mental health systems. We also know that growing up in poverty leaves children ill equipped to become the next generation of taxpayers, productive workers and parents.

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We believe ending child poverty is a realistic goal. According to the British historian and political philosopher, R. H. Tawney, "The continuance of social evils is not due to the fact that we do not know what is right, but that we prefer to continue doing what is wrong."

The SARC report, if implemented, would make a dramatic difference to Ontario's 300,000 poor children. Its 274 recommendations constitute a blueprint for change, not only for basic welfare reform but also for an income security system which would remove children from the welfare rolls.

Transitions offers Ontario the opportunity to do what is right, not only morally but also economically. The report introduces a new objective to guide social assistance, one that is radically different from the current system that does not work. The transition objective, in expressing society's responsibility to all its members, contends that social assistance must ensure

that people are able to make the transition from dependence and exclusion to self-reliance and integration within community life. Action on the SARC report would put an end to the waste of human potential that marks the current system.

We would like to highlight those recommendations most relevant to child poverty. First, the report calls for reforms to the existing provincial welfare system to make it more accessible to those in need, to ensure adequate benefits and to remove disincentives to work. Implementation of these basic welfare reforms would have a very positive effect on the lives of families on social assistance.

Second, the report calls for a new program called opportunity planning to assist parents who wish to enter the work force to do so. The importance of employment support services such as child care is also stressed.

Third, the report recommends an increase in the minimum wage and an income supplementation program for the working poor. This is critical because nearly one half of all poor children live in families where one parent works full-time or part-time.

Finally and most important, the report calls for a children's benefit to assist families directly with the costs of child rearing. The children's benefit would pay up to $3,300 a year per child on an income-tested basis for families with children. Not only would this have a major impact on child poverty, but it would also be the key to transition for sole-support parents, 85 per cent of whom are women.

We are here today to add our voice to the many others who are calling on the government to implement the stage 1 reforms immediately. As the Transitions document itself points out, these changes would signal major moves in the areas of adequacy, incentives to work and the removal of complexity. The $400-million initial cost represents slightly more than one per cent of the provincial budget and would be cost-shared by the federal government.

As important as the stage 1 reforms are, ending child poverty in Ontario requires action on the other recommendations as well. We, like the Social Assistance Review Committee, feel strongly that growing up on welfare injures children and demeans their parents. Recent research in Ontario has shown that children in families on social assistance are far more likely to suffer from psychiatric disorders and poor school performance than other children, including other poor children.

The proposed children's benefit has the potential to end child poverty in Ontario by removing children from the social assistance system. While we at the Child Poverty Action Group are disappointed that the proposal is not for a universal program, we certainly support the principle of a separate children's benefit that reflects the costs of raising children.

Not surprisingly, the Transitions report is being discussed all across Canada. It is the first major initiative since the federal-provincial social security review of 1973 to 1976. The Ontario government is now in a strong and unique position to assume leadership in income security reform, not only here in Ontario but in the rest of the country as well. Many of the report's proposals involve the federal government and will require Ontario to be a vocal and aggressive advocate for the poor.

By commissioning the social assistance review, the Ontario government has already demonstrated considerable leadership in the area of restructuring

social security. The next step is to act on the report, by implementing the stage 1 reforms immediately and by beginning negotiations with the federal government for a national children's income program.

The Child Poverty Action Group and a number of other national and provincial organizations are calling for a first ministers' conference on child poverty. Ontario is well positioned to take the lead in such a joint federal-provincial initiative resulting in a social security system that would meet the needs of the next generation of families with children.

In conclusion, we want to stress that all those who made submissions to the Social Assistance Review Committee, those groups and individuals with the most knowledge about the current system, are extremely pleased with the report. We recognize that the implementation of the recommendations over the next decade would significantly reduce the number of people being forced to rely on social assistance and would represent a social investment in Ontario's future.

That concludes our formal presentation. We would be happy to entertain any questions.

Mr. Allen: Just to take off from your final remark about the social investment that would result from the kind of initiatives that SARC has proposed to the Ontario government, I wonder if you can also comment for us on any studies or experience that indicates the kind of savings in other ancillary areas.

I understand, for example, that there was a longitudinal study done in Chicago about early childhood intervention in the form of Head Start programs which indicated that, as the years passed, those particular children with that additional support did not show up in the same antisocial categories, health categories, correctional categories and so on that have entailed significant social costs for governments. Are there other studies that we have available that tell us that supporting families with this kind of child support program does give us significant reductions in social costs down the road?

Ms. Freiler: That is a good question. There are a number of studies. Most of them, at this stage, are American, for reasons that we can only guess at. There are a number of large organizations in the United States, like the Children's Defense Fund and others, that have large staffs that conduct that kind of research. A number of foundations in the United States, like the Rockefeller Foundation and the Ford Foundation, are putting millions of dollars into research that is demonstrating exactly that. If members of this committee are interested, we could certainly make copies or summaries of those studies available.

There is only just beginning to be an interest in the same kind of approach in Canada. The Ontario Child Health Study by Dan Offord, which you have probably been reading about if you were reading the child poverty series in the Toronto Star last week, I think, is a first step towards that. Certainly in his study he demonstrated that there were very clear correlations between growing up in poverty, particularly on welfare, and other kinds of problems.

Some of the follow-up steps that I know this government is supporting are to fund research that would then show how early intervention might minimize the risks, and in the long run not only ensure better opportunities for those children, but also save money in terms of their use of certain kinds

of health resources, which is a primary one, mental health services and criminal justice services. In Canada, we are just beginning to look at that approach, but there is some very good, reliable American research.

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Mr. Allen: I am sure if you had those studies available, or synopses of them, it would be very helpful for the committee to see that kind of material, because it bears very much on the concerns of the standing committee on finance and economic affairs and the budget questions it has to deal with.

I believe the House of Commons parliamentary committee came to conclusions similar to Mr. Thomson's with respect to the significance and importance of child income maintenance supplements. That was never implemented, of course, by the federal government. Is there anything in their studies that could help this committee evaluate the importance of the Thomson proposals from that perspective once more?

Ms. Pigott: There is a new Senate subcommittee on child poverty that was just struck about three months ago. I do not think they have actually produced any hard information at this point in terms of cost-effectiveness of improved income security for children, but that is certainly one of the things we understand they are going to look at. Again, we can check on that and make that material available. I think that committee is in the process right now of defining its terms of reference.

I should just add, though, to what Christa Freiler said with regard to Dan Offord's study. Probably from a cost-benefit analysis point of view, the two points that were quite striking in the Ontario Child Health Study was the increased incidence in use of mental health services by children growing up on welfare and also the early school leaver or the school dropout phenomenon that he makes a link to.

While it would probably be easier, from Dan Offord's findings around the usage in the child mental health centres by poor children, to cost that out than it would be to look at the real costs, the hard economic costs of having kids drop out of school before they complete grade 11, I think it probably would not be difficult, using some creative imagination, to begin to glean some of the long-term costs.

When we look at studies like the one Ken Dryden did about the costs of youth unemployment—sorry, I am not making this as clear as I should.

Dan Offord's study kind of indicates why it was Ken Dryden found that there were so many kids dropping out of school before they had gained enough education to be able to be readily employable. Ken Dryden, in his report last year, wrestled with the difficulties of trying to turn those kids around in terms of making them more employable. Dan Offord looks at the children before that and says, "This is why they are at the state they are at when Ken Dryden starts to look at youth unemployment."

Mr. Allen: Just as a final question, I believe there are also studies on the effects on children's health of growing up poor. I suspect one would be able to read fairly directly from that the greater likelihood of children succumbing to ill health and then having to avail themselves of health services, hospitalization, etc., to be able to extrapolate some costs

there that would be quite significant and probably quite staggering in their overall amount.

Ms. Pigott: Yes, the Ontario Medical Association made a submission to the Social Assistance Review Committee when it was having its hearings, which I commend to this committee to read. It looks at some of those costs in terms of poor children coming into the health care system. Also, this document, A Choice of Futures: Canada's Commitment to Its Children, that we left behind last time does have one particular fact sheet on it relating child poverty to ill health among children. Those are two good reference documents.

Mr. Ferraro: Ms. Pigott, either you or Ms. Freiler can maybe address this question that I have. Thank you for your presentation. I do not think there is anybody in this room who does not share the concerns expressed by your group.

My question is a little more economically minded. I understand some of the positive social benefits we would get out of Transitions and the implementation thereof. I am not arguing that. Again, without labelling myself, if the Ontario government, assuming the federal government was an active partner in this, implemented stage 1 of Transitions at a cost of roughly $200 million, your figure to the Ontario government, because of the hypothetical nature of the economy and the political leadership, if you will, would the benefit from stage 1 indicate not only in a social way—that may be enough—but also in an economic way the need and indeed the necessity to carry on with Transitions, of which the total cost is in the billions of dollars?

You may argue that this benefit in itself would be enough to justify the cost, but what I am trying to get at is whether it would also provide further encouragement for implementing the entire Transitions program or say, "No, that is enough"? It might be a difficult question.

Ms. Pigott: I will take a stab first. Speaking from the point of view of the Child Poverty Action Group, we would see implementation of the stage 1 reforms as an indication that this government recognizes the seriousness of the problem and is indicating a willingness to tackle it. I am sure as you conduct your hearings, you will hear from people that implementation of stage 1 would have an improved effect on the daily lives of a lot of people with children who are on social assistance.

To answer your question, in order to really deal in a meaningful way with child poverty, there would be a need for the government to continue implementation of the entire Transitions package. The children's benefit, for example, as we have tried to point out in our presentation, is quite critical to the opportunity planning piece of the SARC package, in so far as it is critical particularly for sole-support parents to make the transition from social assistance to the workforce.

Mr. Ferraro: Let me interrupt you for a minute. I understand and appreciate what you are saying, but let me be more crude, if I may, and please do not label me because this is the standing committee on finance and economic affairs.

If we wanted to improve the welfare of those in poverty, particularly children, by giving them more money today, we would improve that to some degree. What I am trying to get at is whether with stage 1 we will see an economic benefit that will add strength to the compassionate reasons we would want to do the further stages. That is my question, bearing in mind that this

is the finance and economic affairs committee. Please do not misunderstand where I am coming from.

Ms. Pigott: Let me make sure I understand your question. What you are asking is, if the Ontario government were to implement stage 1, would there be recognizable economic benefits to be reaped by that?

Mr. Ferraro: Yes.

Ms. Pigott: My answer to that would be a guarded yes. As you have heard us say, we are talking about some children right now who are born in a poor state of health because their mothers literally cannot get enough to eat when they are pregnant, and cannot get the right kind of food and housing for their children when they are newborns. When we realize how severely deprived are so many parents on social assistance with infants or pregnant women with infants or families with small children, then yes, I think there would be a benefit.

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Mr. Black: I would like first to commend your group on its presentation. I would also like to add the previous group as well. I think both of you have addressed a problem that needs to be discussed. I think all of us in this room recognize the validity of what you are saying, but it does not hurt to have that repeated and given emphasis.

I am looking particularly at the second paragraph on page 3 in which you talk about the social and economic costs of child poverty. All of us in this room share a concern that we are not at this point fully aware of what steps the federal government may be taking in terms of its budget. I will ask you and also the people who made the previous presentation, are you making your views and your concerns known at the federal level of government as well as at the provincial level?

Ms. Freiler: Yes. The Child Poverty Action Group has in the past directed a lot of its energies at the federal level. We have made presentations, for example, to the standing committee on national health and welfare, which a year and a half ago was considering making child poverty its issue and dropped that.

We are looking forward to being able to participate in the Senate subcommittee on poverty which anticipates it is going to be holding public hearings. We have met with federal caucuses, etc., and the message is essentially the same: To deal with child poverty requires the co-operation of the two senior levels of government. We also, two years ago, made a submission to the Social Assistance Review Committee. There are opportunities at both levels of government, so we are not limiting ourselves to Ontario.

Mr. Pope: I think virtually everyone would support the principle of a separate children's benefit. That reflects the cost of raising children which is on page 3 of your statement. I would like to know from you how you see parental accountability and responsibility for the expenditure of those moneys for the benefit of the children. How would that be implemented and can it work?

Ms. Pigott: Parental accountability, interestingly enough, has never been one of the major concerns of the Child Poverty Action Group, and I will try to explain why.

The founding members of the Child Poverty Action Group, by and large, are either public health nurses or social workers who work directly with poor families. We therefore claim an expertise that a lot of people in the general public do not have; that is, we have by virtue of our work exposure to families raising children on low incomes.

We do not feel that parental accountability is a major issue. We all know there are some parents, and I suppose always will be across all economic lines, who need help enhancing their parenting skills, but generally speaking our experience is that parents want to do what is best for their children. They just do not have the financial support to do that.

Ms. Freiler: The other thing you might be interested in knowing is that 40 or so years ago, when the universal family allowance program was introduced in Canada, the same kinds of questions were raised. They did introduce, very early on, a monitoring mechanism that would make sure the $5 or whatever it was then that was going to every family would be spent on behalf of the children it was supposed to be benefiting. They discontinued that monitoring mechanism after a year or so because they found the incidence of abuse was so insignificant that it did not justify this mechanism and the cost involved in monitoring it.

One would assume that 45 years later, that would not change. I think that supports Susan Pigott's point that it is probably safer to assume most parents want to do what it is in the children's best interests.

Mr. Pope: I do not think you understand the principle I am getting at. We have recognized, in law, independent rights for children. They are entitled to have independent counsel with respect to certain processes that technically used to involve just the mother and the father.

What I am getting at is that if we establish the principle of a separate children's benefit, we drop any safeguards of that child's independent right, which we have recognized in other avenues of endeavour as a government.

Ms. Freiler: No. The Child and Family Services Act would still exist in Ontario. The children's benefit, as you probably know, does not go to the child. The children's benefit goes to the parents. Whatever other protective laws we have, such as child welfare laws, would continue to exist. I think those would cover situations of the kinds of abuse you are talking about.

I thought what you were asking was whether or not we would then need an additional layer of monitoring or policing to make sure that the $3,300 is being spent on the children.

Mr. Chairman: Mr. Cleary, in closing?

Mr. Cleary: First of all, I would like to congratulate you for your excellent presentation. Most of my questions have been answered, but just in comment, back in the mid-1970s, I served on a similar type of committee in eastern Ontario and we made presentations at many of the conventions. I guess my question to you is, does your group have representatives from all over Ontario or is it Toronto-based?

Ms. Pigott: In answer to that, we started out as a national organization. We have branches and small groups across the country. In the course of our work around the SARC report, we have generated a network across Ontario. Our major branch is in Ottawa. We do not have major branches in any other cities in Ontario, I guess primarily because we have been working harder to try to make sure we have a presence across the country rather than just in Ontario. Does that answer your question?

Mr. Cleary: Yes; thank you.

The Vice-Chairman: Thank you very much for your presentation.

I ask the people from the SARC Consultation Group, if they are here, to come forward, please.

Whoever is going to be doing the presentation or speaking or act as the spokesperson for the group, I will just inform you that while we have scheduled 40 minutes, there may be a bell that calls us to vote, so we are yours securely at least for the next half an hour to 35 minutes. Again, we are in your hands as to how you want to handle that time. If you want to take it all up in presentation or if you want to leave some of it for questions and answers, we are entirely in your hands. I will turn it over to whoever the spokesperson is.

SARC CONSULTATION GROUP

Mr. Coles: We are sharing the speaking. My name is Stewart Coles. All four of us are members of this consultation group. My role in it is as a vice-president of the Social Planning Council of Metropolitan Toronto. I am a member of Interface Social Assistance Review Committee, which was one of the consultative groups for the SARC report and I am also president of Food-Share Toronto.

With me is Ben Radford of the Multicultural Advisory Committee and David Thornley of the Social Planning Council of Metropolitan Toronto staff, and he has chaired this consultation group. On my far right is Michael McHenry, who is president of BOOST, and that stands for the Blind Organization of Ontario with Self-help Tactics.

I am going to read the first few paragraphs and then move to the sections the other three will present. We hope we can get this done so there is lots of time for your questions and comments.

The SARC Consultation Group welcomes this opportunity to share its views regarding the social and economic development priorities--perhaps that is a key phrase; we would like you to be interested in the interlock between social and economic dynamics--having to do with the preparation of the 1989-90 provincial budget.

In reviewing the background document, Economic Outlook and Fiscal Review, 1988, we were, to say it mildly, disappointed by the complete absence of any discussion of poverty and social exclusion. It is our hope we can remedy that in making our remarks today.

The SARC Consultation Group is a network of more than 40 people and organizations representing social welfare groups, multicultural agencies, community legal clinics, disability organizations and faith groups as well as recipients themselves who are working together to improve Ontario's social assistance and income support programs.

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Our presentation today is structured into four parts, and we are sharing those: (1) an overview of the Social Assistance Review Committee report, Transitions; (2) why the proposals in Transitions would be good social policy; (3) why they would be sound economic policy; (4) some comments about why the implementation of the SARC report should be the number one priority in the budget preparations of the government.

It has been more than four months since the release of the Transitions report. On the day of its release, the Minister of Community and Social Services, John Sweeney, called it a blueprint for reforming Ontario's welfare system over the next decade. He has stated publicly on several occasions since that he supports the broad directions for reform suggested by the report.

This consultation group shares the viewpoint expressed by the minister that this is a detailed and thoughtful report, one that can provide the basis for developing a more humane social assistance system and one that supports people in making transitions in their lives.

In anticipation of the report, we put together a benchmark document, which may or may not be in your files, outlining a set of principles that should form the basis for social reform and 33 areas of consensus on issues that we felt had to be addressed by the SARC report. The next section in here says a surprising number of those were so addressed; hence our strong support for that document, especially in the stage 1 implementation.

We cannot hope today to do justice to the breadth of issues addressed in the SARC report's 274 recommendations. Rather we will use the central theme of transitions which runs through the text of the report, particularly the focus on assisting recipients to move from dependency to greater self-reliance, including work incentives but not isolating those as a means of organizing our comments.

For purposes of this presentation, we have clustered these issues into three broad groups: prerequisites, barriers to self-reliance and related income security reforms. Mr. Radford will take the next section.

Mr. Radford: Prerequisites: I guess by prerequisites we mean those things that are necessary for implementation. The prerequisites are the foundation upon which reform efforts rest. The SARC report identifies three such prerequisites: (1) adequate income in meeting basic needs; (2) the assurance of secure and affordable housing; (3) a delivery system designed to enable rather than to disable recipients.

In the absence of adequate incomes and secure housing, recipients' energies and resources are constantly being sapped by the day-to-day struggle to put food on the table and to keep a roof over their heads. With private market rents consuming 50 to 70 per cent of recipients' income, they are often unable to provide adequately for the food, clothing and other basic needs of their families. Under such circumstances, recipients find it hard to make plans for the future, to pursue educational or retraining opportunities or to seek employment.

Finally, the nature of the system itself has to change. The current welfare system operates in a way that demeans and punishes recipients and erodes their sense of self-worth. It must be transformed into one which treats recipients with dignity and respect and which sees itself as enabling

recipients to make transitions while coping with a period of adversity in their lives.

Barriers to self-reliance: Many aspects within the operation of the system can be seen as discouraging and even penalizing people in their efforts to re-enter the workforce. To summarize some of the obvious ones: limitations of access, a cap on hours of work, the amount recipients are allowed to earn before facing punitive taxback rates and the loss of in-kind benefits such as the Ontario health insurance plan and prescription drugs in taking a job, as well as the lack of employment support services such as child care for single parents and workplace attendant care for the disabled.

In addition to the lack of work incentives, the SARC report makes a case that poor access to a host of community support services also impedes the efforts of various disadvantaged groups in participating fully as members of the larger community. Effective integration of a complete range of support services with the social assistance system, including information and referral, multicultural services, employment supports, portable services for the disabled, literacy and educational upgrading among others, must be in place if the principles related to transition and reintegration with the mainstream are to be achieved.

Related income security reforms: The SARC report recognizes that if benefit levels of social assistance are to be adequate and if positive incentives which encourage and support people in making the transitions from welfare to employment are to be created, these policies must be developed in a co-ordinated manner with income support programs which benefit the working poor as well.

The report offers three major proposals, each of which could be pursued unilaterally, but which would more appropriately occur as a federal-provincial shared-cost program: (1) an income supplementation program for workers with low incomes, to be developed in conjunction with improvements to the minimum wage; (2) a disability insurance program to remove most disabled persons from social assistance; (3) a children's benefit which would consolidate most existing children's benefits into one much larger benefit that would greatly assist low-income households with the additional costs of parenting.

The report sets out a five-stage implementation strategy designed to put into effect its broad vision of reform. The SARC report is like a house built on well-argued, secure foundations—the vision and principles—which require that reforms address the adequacy of rates, provision of work incentives, an increase in the minimum wage, assistance to families with the costs of supporting children, all within the context of a system redesigned to enable people to make successful transitions in their lives while coping with a period of stress and adversity, basically a program that gives people a chance to do things for themselves.

In the United States, and I am from the United States, many of these programs were cut out, which greatly deterred and stopped poor people from obtaining their goals. I strongly encourage you that this is a new way of having people help themselves and assist themselves.

I will turn this over to David Thornley now.

Mr. Thornley: I am going to talk about some of the ways in which we feel the SARC report represents both sound economic and sound social policy.

The Transitions report is good social policy in that it would reduce the

depth of poverty which is experienced by Ontario's most economically disadvantaged people. It provides for more adequate benefit rates based on a realistic assessment of the costs of purchasing basic needs. It calls for shelter subsidies that would cover the full cost of rents up to the average rent level in the community. Together, these two initiatives would provide a stable foundation from which families and persons on social assistance can begin to pursue plans to assist them in becoming more fully integrated into community life.

Inadequate incomes and high shelter costs continue to cause extreme hardship for many households in this province. In Metropolitan Toronto alone, nearly 80,000 people, including 36,000 children, use emergency food donations to supplement their inadequate incomes each month. The proposals contained in the Transitions report provide us with the means to ensure that this is the last winter in which we are forced to rely on food banks and other forms of emergency relief to compensate for the failure of our social assistance system in meeting basic needs.

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The Transitions report is good social policy because it would greatly simplify the system. It would make it more accessible. It would improve access to community services to support the efforts of recipients to make choices about their future. It is also good social policy in that it promotes more effective integration of social assistance with other aspects of our income security programs.

The SARC report would result in substantially lower rates of poverty and welfare dependency among families with children. This is good social policy in that it would translate directly into better child nutrition, improved school performance and lower dropout rates as well as lower incidences of health problems.

The SARC report is sound economic policy because it takes a $2-billion-a-year system that is failing both the people it was designed to serve and the public purposes it was designed to achieve and, with a modest infusion of funds, transforms that into a system which gives people real choices in their lives, promotes self-reliance and reduces long-term welfare dependency.

The Transitions report is sound economic policy on several other grounds. The provision of work incentives will increase the skill level of the workforce, will add taxpayers who can contribute to government revenues and, in the long run, will contribute better-educated citizens and consumers and better parents.

The SARC report is also sound economic policy in that it would reduce many of the hidden costs that are directly associated with poverty and exclusion. Poverty is more than a question of inadequate income. For those trapped on social assistance, equally important is the sense of hopelessness and despair that results from frustrated ambitions and limited choices. This leads to costs in our child welfare system, our juvenile justice system and our mental health system, and all of these can be significantly reduced if we implement the SARC report.

Providing adequate incomes and giving people choices in their lives will also have a clear impact, on a long-term basis, in reducing rates of incarceration and institutionalization and the prevalence of substance abuse.

It may cost $5,000 to $7,000 a year to provide a family with the income and supports its members need to make a transition in their lives towards greater self-reliance. The cost to society of keeping those who are failed by the system in a penal institution or a chronic care hospital, for example, can often be five to eight times that amount.

I would like to now turn it over to Michael McHenry.

Mr. McHenry: I want to talk to you now about why the SARC report must be the top priority for this upcoming provincial budget. We noted in our opening remarks that the background paper, Economic Outlook and Fiscal Review, failed to address the contradiction of extreme poverty in the midst of Ontario's affluence. This budget must confront this issue with the seriousness and determination needed to reduce the inequities between rich and poor people in our society.

When I talk about the differences between rich and poor people, I guess, first of all, we are here to talk about the commonalities that people share as human beings. We have banded together in the SARC Consultation Group to stress our common unity and our common quest for a fair and equitable social and economic system in this province that really works for everyone.

But it is very important to remember that we share in common with you the fact that we are human beings. As was noted by one other disabled person who made a presentation to you earlier, disabled people and many, many other people who receive social assistance in this province are requested to exist and are expected to exist with gratitude on an income of, say, roughly half or two thirds of what an individual member of the Legislative Assembly receives in Ontario to live in the city of Toronto. There is a recognition that to live in the city of Toronto a member of provincial parliament requires and incurs certain peculiar expenses, such as cost of living, high cost of housing and other things.

It is only fair that you, in your concern for disabled people, single moms and a lot of other people who receive social assistance and are not getting a fair shake right now, when deliberating on this upcoming budget, keep in mind the gap between what MPPs receive and what people with disabilities, elderly people and homeless people are expected to live on every month. I would like you to keep that first and foremost in your conscience and in your awareness while you present the provincial budget this coming April.

We want to see some real changes made. The Transitions report is excellent. It addresses a lot of our concerns. I would like to outline some of the things we really like about the report and how you can translate them in concrete terms into the upcoming budget.

Any budget is in a fundamental sense a reflection of the values and aspirations of our people. It furnishes the vision of where we want to go in the future. We believe the broad directions for reform outlined in the Transitions report, with its vision of a fairer and more inclusive society, must become a central part of the values underlying this budget. Such a vision should reflect the following broad principles, and I am going to outline a few:

1. The larger community, through government, must ensure that all its members have adequate incomes to meet basic needs as an essential precondition of securing other rights and entitlements relating to full citizenship.

That is a lot more than a cliché.

2. All members of society must have the opportunity to participate in the productive life of the community through meaningful work opportunities, including paid employment at equitable wages with fair working conditions. We are talking about employment equity and other things that are related to that, and they affect all of us. We have to have a social assistance system that really works and gets people to work.

3. All persons must have access to the resources and supports needed to overcome barriers and constraints to their full participation in, and opportunity to contribute to, the life and decision-making of the community. In other words, we have to stop stigmatizing single mothers who stay at home and whose only barrier to independence is a better income provided by government and a better share of the day care and other facilities that must be made available. If MPPs can live in relative comfort, and I think that is something above frugal comfort, then you must take into account our real needs in this upcoming budget.

4. Public policy must recognize the dignity and value of all persons and work concretely to empower those living on the margins of society to take more control over their own living situations.

The gap between rich and poor is creating social tensions that divide society, and represents a serious waste of human potential. Over time, the maintenance of social and economic inequities threaten both future productivity and the social wellbeing of all of us. The long-term costs are staggering, both in human terms as well as through the various public programs required to offset the worst effects.

We must work together to transform our current system into one that is founded on the dignity and value of each person, where the needs of socially isolated and economically vulnerable persons come before the desires of the affluent.

Instead, our current system provides a glut of luxury homes and condominiums while tens of thousands remain homeless or inadequately housed. It lavishes tax breaks and other rewards on those who are already receiving extraordinary financial benefits from our economic system, at the same time as punishing those lacking opportunities and resources with grossly inadequate incomes and tax rates that discourage even part-time work.

We must work together in forging a new notion of an inclusive society, one that accepts the shared risks we all face: disability, family breakup and unemployment. We must seek to ensure that people experiencing a life situation that may present barriers or constraints to their full social and economic participation are furnished with the resources and supports they need to become fully integrated within the life of the larger community.

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<u>Mr. Coles</u>: The work of the Social Assistance Review Committee presents an important opportunity to begin the process of moving towards this more inclusive vision. The creation of SARC itself signified a growing discomfort on the part of society with the lack of resources and support available to disadvantaged persons.

I wonder if it has come to your notice that some people are saying this

vision was George Thomson's. That is a dreadful misinformation. I have lived 70-some years in this province and there is no question there has been a more visceral outcry from the people of the province, scattered all across the province, to SARC as the basis of that report. That is one of our motivations in asking you to take it very seriously. It is not a dream and it is not one man's vision; it is reality coming from the guts of a great cross-section of the people of this province.

The size of the public response to this initiative, including more than 1,500 written and oral presentations, provides clear evidence of the broad consensus that exists among community groups across Ontario on the need to fundamentally reshape--not tinker with but fundamentally reshape--the delivery of social assistance in this province. Rightly or wrongly, we think this budget committee has a very strategic role in what we are asking for.

Page 10 tries to give you some arguments that it is not only good dreaming and good justice, but that it is also much better than the dreadfully inefficient business process that presently characterizes social assistance in Ontario.

The cost of implementing stage 1 of the Transitions report has been estimated at $385 million to $415 million. While not a small amount of money, it would be money well spent. It would begin the important process of transforming a $2-billion system that is neither meeting the needs of recipients nor the public purposes for which the programs are intended, into one that reduces long-term dependency and gives people real choices in their lives. We think this is an extremely good business proposition.

Social assistance programs in Ontario currently provide the means of income support to about one in 18 people, including the more than 200,000 children on whom you heard a brief just a few minutes ago. Yet even with the proposed increase of $400 million in expenditures, the programs would consume barely one per cent of the province's gross domestic product. This additional expenditure would be a wise investment in Ontario's future.

Since social assistance is fully cost-shared with the federal government, the increased revenues needed from Ontario taxes would be about $200 million. Given that there are about six million tax filers in Ontario, that translates into an average tax increase of about $33 per capita, or less than a dime a day.

Despite an economy that has grown by 60 per cent during the past five years, and the fact that Ontario is one of the most affluent jurisdictions in the world, we have not made improving the lives of our most economically vulnerable citizens a top priority. During the 1986-88 period, when revenues were growing much faster than anticipated, the roughly $1.5 billion in extra revenues were largely eaten up by runaway costs within the Ministry of Health. Claims on the budget at that time for substantial improvements in social assistance spending were set aside on the grounds that the government was awaiting the findings and recommendations of the SARC report.

Now that the Transitions report is out, the message has been, so we have been told, one of fiscal restraint. The money is all gone; it is all committed to other priorities. We say this is not good enough. We hope your committee will say the same.

This budget is the time and the opportunity to make a commitment to improving the lives of those among us who have the least. Now is the time for

government leadership in significantly reducing the incidence of poverty in our midst. It is not a question of money. It is a question of political will.

Mr. Kozyra: I have two questions. On page 7 you speak of a modest infusion of funds. I would like you to clarify that. In your calculations over the five stages of the program, what is the difference in new funds that would be required over the cost of the existing program, so we know what figure you are referring to as a modest infusion of funds?

Mr. Thornley: We are looking at it as a modest infusion of funds in that the proposals that relate to reform of the social assistance system per se is estimated at between $800 million and $850 million, over the five stages, over and above the current level in 1988 dollars.

We see that as a modest infusion because I think it has to be looked at as an investment in the sense that we are currently spending in excess of $2 billion on a system that is not working at all. What we are talking about is over a period of time, which might be four years or six years or whatever it is, over the time frame of the five stages.

The part relating to the social assistance system itself of $850 million can begin the process of reducing the number of people who actually depend on the system, so that based on the number of people who are on this system now, in 1988 dollars, it will cost $800 million to $850 million over the long term. The expectation would be that as it gives people real opportunities and is integrated with other programs, there would be fewer people on the system, so that the net cost may in fact be negligible in real dollars. But we do not have any way of assessing that.

Mr. Kozyra: I have seen figures that indicate the costs could be in the several billions. I would like to pursue the political will aspect. I realize it will take a tremendous amount of political will and that is perhaps where you start.

I will follow up on the type of question my colleague Mr. Ferraro had asked as to what could be expected for the initial infusion of $200 million at stage 1, because we realize that you not only need the political will; you need some kind of tangible evidence out there. A lot of this is a selling job on the rest of the public for support if it is going to continue and succeed, especially if it is not readily available new money that is found, but money that has to be reallocated from other programs in these substantial amounts.

What kinds of things do you foresee that could be pointed to and used in arguments by you and us in support of the program after stage 1, assuming it is implemented, that would say: "Stage 1 is going great. Here are the kinds of results and it really lays the foundation for stages 2, 3, 4 and 5"?

Mr. Thornley: I think Mike wants to lead off on that one, and then I can add to it.

Mr. McHenry: In terms of actual outlay of money and where money is going to be allocated to and where from, I guess you are right. It is a selling job that we have to do on the public. In terms of Gallup polls, I would also ask that the public consider Gallup polls that object to exorbitantly high rates of income for certain sectors of society, some of whom hold public office.

When we talk about reallocation of resources, we know that whoever gets

it at the top is getting the money from somewhere; it is coming from the people at the bottom or the lower economic rungs of society. So we are talking about reallocating some of the money from those who have to those who do not have. From people who are able-bodied, who have been working and who have been economically productive for 20 years and are now at the top of the economic heap, we are talking about reallocating that to the lower rung, to people with disabilities, single mothers and welfare recipients who have never had a fair shake.

If I might just speak from a personal perspective again, in terms of disability, we think a lot of the reallocation and money that comes from the Social Assistance Review Committee report might come from large charitable organizations that serve the needs of people with disabilities who are currently on social assistance and have no means of escape and have no other choice. When we talk about an economic restructuring, we are talking about reallocation of funds on a fundamental level, so that there would probably be less need if we had a social assistance system that really worked; there would probably be less need for money to be allocated to causes where the fruits are doubtful.

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Mr. Kozyra: I am not sure that answers my question, because even if you were to reallocate and reduce all politicians' wages to minimum wage, it might please a lot of people but certainly would be a drop in the bucket for the type of money you are needing. I am looking for tangible results from this first stage.

Mr. Thornley: There are two obvious ones, I think. Stage 1 has proposals relating to ensuring that the amount of money recipients get for their shelter costs realistically reflect what it costs to rent housing on the private market, and most people on social assistance are renting on the private market. That is one area.

The second area is the whole issue of changing the policies around work incentive and tax-back rate on earnings, which would greatly improve the ability of people and make it economically viable for them to seek and retain part-time work.

The background information in the Transitions report makes it clear that if people's housing is relatively unstable and they have to move a lot, or if the work incentives operate in a way that discourages them from taking even part-time work, the likelihood of those people remaining on assistance on a long-term basis is greatly increased.

Both of those moves, which are in stage 1, should have a significant impact in helping people move off assistance within a year and in reducing the rates of long-term dependency.

Mr. Radford: I just want to respond to that quickly. Looking at the history of the United States, when it introduced work incentive programs, people did start to get off the welfare programs because they had abilities to get work training and to develop job skills. When the Reagan administration cut that program, the reverse happened and welfare rolls started to increase and started to double again.

There are tangible things and you can present other examples from other

countries of how work incentive programs can be very effective at getting people off welfare rolls.

Mr. Allen: I want to compliment this group and the other two presenters for putting to us something which is at once a major moral challenge, a major social policy challenge and a major economic challenge.

If I hear you correctly, gentlemen, it is essentially that these three challenges are not separate challenges, that the moral challenge of poverty is at one and the same time a question of social efficiency and social functioning in our society, whereby groups of people can live and work together with a relative sense that they are all participating in a shared experience, in this case something called Ontario; and that therefore, they have reasonable expectations and have no reason to engage in those personal and group rebellions that cost them personally and cost society money.

There is also an economic challenge which is part of all that, that if those members are fully productive members of society we can expect significant economic benefits for the whole of our society. Am I right in reading you, that you have three challenges in there and that they are all together, and that the moral challenge at one end is precisely the same challenge as the economic challenge at the other end?

Mr. Coles: Yes, around the word "investment."

Mr. Allen: That brings me to my second question which grows out of the questions that have been asked across the way. I do not see us asking, with respect to an education system, that we have to get results from the first graders next year in order to invest the amount of money we invest in junior kindergarten and in first grade in the primary section of the school system.

I wonder whether we do not, in our public policies and in our social investments, look rather to long-term results from some of the investments we make. I suspect one can hardly look at a more worthwhile economic investment than investing in the health of every child in the province. If you grow up with good nutrition, you are not going to be saddled with those health costs down the road. Health researchers can tell us fairly graphically the impact there could be on reduced health costs simply by putting children through a good nutritional program for the first few years of their lives.

I also do not think we should look upon these proposals as next year producing X fewer people on social assistance. I wonder if the people presenting to us now could tell us what one could reasonably expect. What is the proportion right now of people on the system who are able-bodied and whom one might expect reasonably and easily to be moved off the system as compared with others? What are reasonable expectations in that regard? What should we put under the long-term category?

How far down the road should we look in terms of a social assistance system: 10 years, 12 years, 15 years down the road rather than an implementation that would get us some results now so that we could argue next year at the next budget hearings that the government should go on to the second stage of Thomson, because look at what we have done in the first stage? I do not want us to be unrealistic about this. What do you have to say on that?

Mr. Thornley: I think one of the problems with that question is that there is a very clear relationship between whom one sees as employable or

able-bodied and what kind of resources and supports we are willing to bring to bear to help people to overcome the barriers and constraints they face in becoming employed. Those two things are very much interlinked, and it is very difficult to talk about one half of the equation without looking at the other.

One thing that is documented quite clearly in Transitions is that there has been an evolution in thinking in terms of employability and an increasing recognition that large numbers of both single-parent families and disabled people do want to work either part-time or full-time, and with appropriate supports are very much capable of doing so.

Having said that, those who are employment ready and require relatively little in the way of support services, depending on how you define it, are probably somewhere between 15 per cent and 25 per cent of the people who are on the systems at the present time. One would think just putting in place stage 1 with relatively modest adjustments on the existing programs would begin to have an impact on that group.

Very clearly, the message of the report is to create the opportunity over a relatively short period of time for those kinds of employment opportunities for as many people on social assistance as possible.

Mr. Allen: Do I hear you and the report correctly as saying that the present system is an impediment to people who end up on social assistance in terms of their movement towards independence and self-support? You passed over that fairly quickly. It was in your statement, but perhaps you can give us some more graphic impression as to how that trapping takes place, what those impediments are and why the system therefore is not really enabling people to move towards self-support and independence.

The Vice-Chairman: There are two minutes left. I know it is impossible, but we physically have to adjourn when the House adjourns at 12 o'clock. The bell has not rung, so we have at least two minutes.

Mr. McHenry: I guess it has taken a long time for the province to build up the system of social dependency, among disabled people anyway. I know we have an incredibly large number of racial minorities and visible minorities dependent on social assistance. There are 90,000 disabled people in this province on the guaranteed annual income system for the disabled, the inadequate income we are required to live on every month. It took a long time to build up that system of charity. There are another 35,000 people with disabilities on general welfare assistance. It took time, energy and resources to build up this system of dependency.

We want to see a comprehensive approach taken in this upcoming budget to end that. There are too many disabled people who are not getting attendant care when they need it. You cannot get to work if you cannot get transportation. You cannot get work if we do not have meaningful affirmative action programs. It is a comprehensive systemic approach to discrimination and it starts in a graphic sense with a lack of fiscal commitment on the part of government. We want to see the situation turn around.

The Vice-Chairman: Thank you for your presentation.

Mr. Coles: May we ask you one question?

The Vice-Chairman: Sure.

Mr. Coles: It really is responding to some of your questions. We have found ourselves deeply troubled, because we could not find anybody in Ontario who is trying to find out what the real economic costs of our present social policies are. We would think your committee could ask for provincial resources to do what all our consultative groups found themselves lacking and have no means to provide. It is a request, maybe not for this year's budget, but certainly for another year, that you find out the business cost of the present social policies.

The Vice-Chairman: Okay.

Just for the committee's information, I assume we will be sitting next week. With that assumption comes the estimates of the Treasury, so we will not be hearing any submissions on prebudget consultation. Apparently there was an agreement worked out by the House leaders that starting the first Thursday in February from now until the House is in recess, we will be doing Treasury estimates and we will have to plan our agenda from there.

I had a request from the researcher. She would like to know what work we would like her to do, if any, in order to prepare for those Treasury estimates.

Mr. Ferraro: I do not want to give Anne a lot of work. She probably has already started, but perhaps she could look at the Treasury estimates with an eye to the recommendations of last year's committee. One or two pages, if she can.

The committee adjourned at 12:02 p.m.